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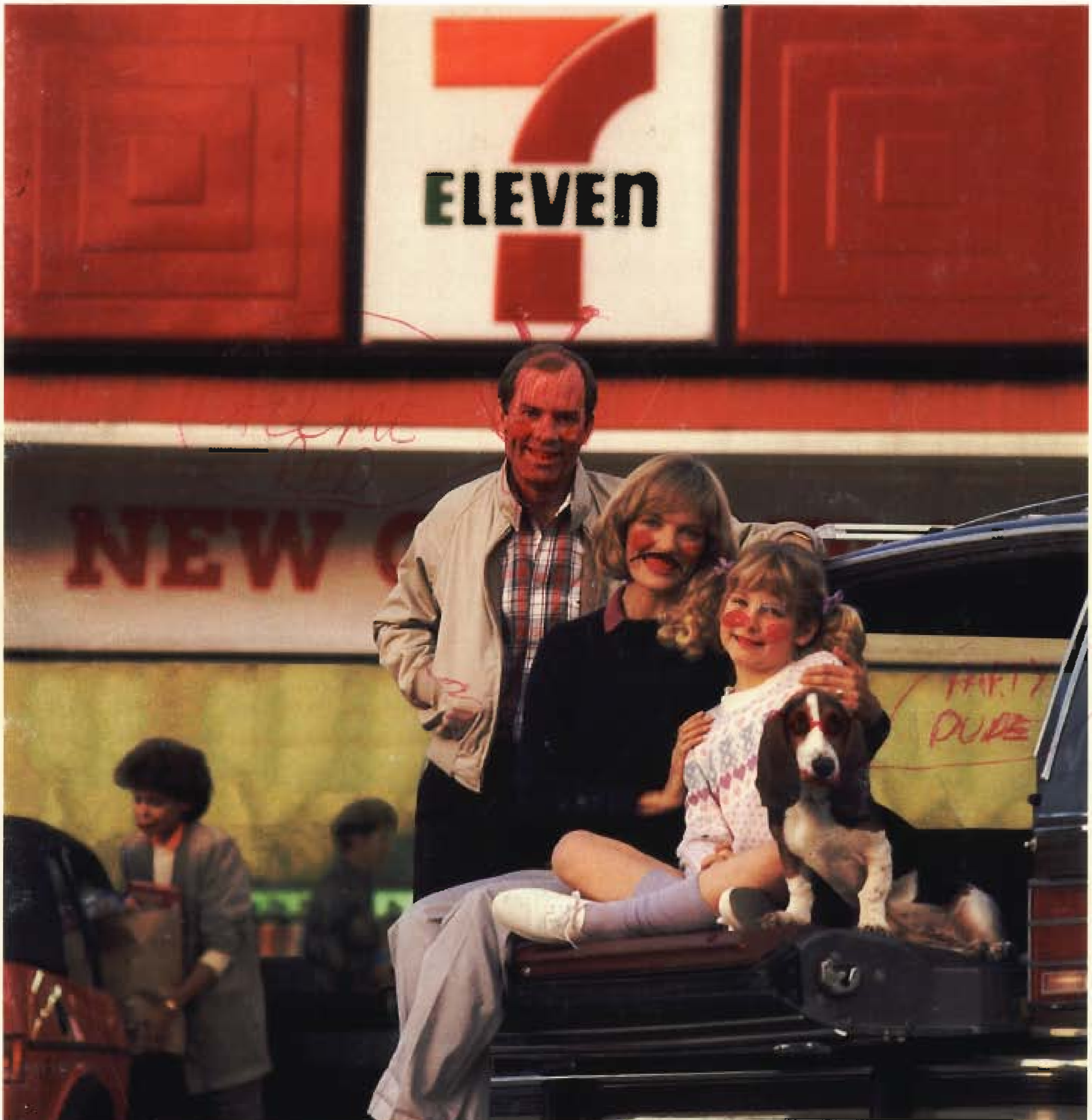
The Southland Corporation 1984 Annual Report

With 8,200 high-quality retail locations backed by innovative marketing and efficient integrated operations, Southland is and will remain America's leading convenience retailer.



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Food Processing and Manufacturing

The food processing and manufacturing segment includes Southland Dairies, one of the nation's largest processors of dairy products and a leading manufacturer of frozen novelties. Its products are marketed in all 50 states, the District of Columbia and Canada under 11 well-known regional brand names.

Other operations in this segment include six food centers, which produce a complete line of sandwiches and other fast food items; El-Ge Potato Chip Company; Pate Foods, a corn-based snack food company; Southland Chemical, manufacturer of food ingredients and specialty chemicals; Reddy Ice, the world's largest ice company; and Tidel Systems, which produces high-security cash-dispensing units and other equipment for retailers.

Gasoline Refining and Supply

The gasoline refining and supply segment is comprised of Citgo Petroleum Corporation and the Gasoline Supply Division. Citgo operates a major petroleum products refinery at Lake Charles, Louisiana, and a lubricants compounding plant. Its wholesale marketing business supplies transportation fuels to 3,500 retail gasoline outlets, as well as most 7-Eleven and Quik Mart stores. Southland has 40 refined product terminals, as well as various ownership interests in the Cit-Con lubricants refinery at Lake Charles and almost 16,000 miles of refined product and crude oil gathering pipelines. The Gasoline Supply Division procures and distributes gasoline to 7-Eleven stores in Texas in addition to serving outside customers.

Southland Facilities

Convenience Retailing Segment	
7-Eleven	7,473
Other Retail:	
Quik Mart	291
Chief Auto Parts	337
Gristede's	48
Super-7	41
Total Units	8,190
International Affiliates:	
United Kingdom:	
R S McColl	349
Sweden: 7-Eleven	49
Mexico: Super Siete	44
Total Affiliate Units	442
7-Eleven Area Licensees:	
United States	532
International	2,483
Total Licensee Units	3,015
Total Retail Units	11,647
Distribution Centers*	4
Chief Auto Parts Warehouses	2
Food Processing and Manufacturing Segment	
Dairies:	
Processing Plants	21
Distribution Points	68
Food Centers	6
Snack Food Plants	2
Reddy Ice Plants	8
Chemical Division Plants	3
Tidel Systems Plant	1
Gasoline Refining and Supply Segment	
Citgo Refinery	1
Cit-Con Lubricants Refinery**	1
Lubricants Compounding/ Packaging Plant	1
Refined Product Terminals	40
Pipelines (miles):**	
Crude Oil Gathering	7,587
Refined Product	7,980

Facility numbers as of December 31, 1984
*A fifth center will open in mid-1985.
**Various ownership interests

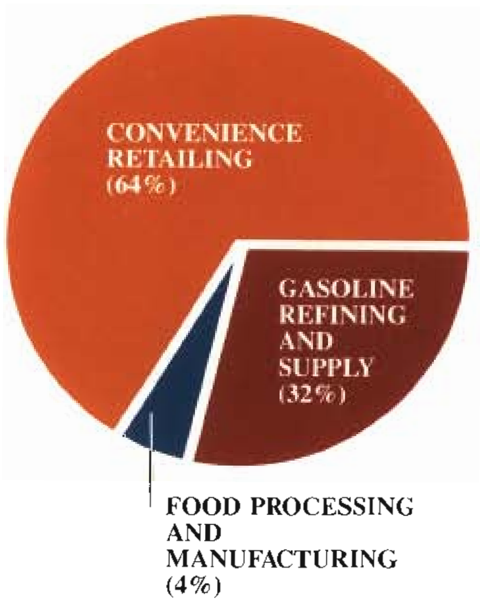
The Southland Corporation, which originated the convenience store concept in 1927, operates the largest convenience store chain in the world and is the sixth largest retailer in the United States. Its specialty retailing and supporting operations were re-segmented for financial reporting purposes in 1984 to represent more closely the nature of their businesses. These segments are convenience retailing, food processing and manufacturing, and gasoline refining and supply.

The convenience retailing segment includes 7,473 7-Eleven stores, Southland's primary business, as well as four regional distribution centers which support the stores. Other retail operations include Chief Auto Parts, Quik Mart gasoline and mini-convenience stores, Gristede's food stores and Charles & Co. sandwich shops and gourmet stores, and Super-7 high-volume self-serve gasoline outlets.

Southland's International Division includes 3,457 7-Eleven and other small retail units operated by area licensees and affiliates in 11 countries. Sales from these operations are not reported in the Company's total revenues.

Contents

OUTSIDE SALES BY SEGMENT



77

The Year in Review

Southland Sales Top $3 Billion

Special Report To

The Southland Family

(SPRING 1979)

The Southland Family

SPRING 1979

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THE SOUTHLAND CORPORATION

STORES GROUP
7-ELEVEN STORES
GRISTEDE'S
CHARLES & CO.
SOUTHLAND INTERNATIONAL
R. S. McCOLL, UNITED KINGDOM
7-ELEVEN OF JAPAN CO., LTD.
PACIFIC-SEVEN, AUSTRALIA
D.D.A.S.A., MEXICO
ATLANTIC-SEVEN, CANADA

DAIRIES GROUP
ADOHR FARMS
BANCROFT
BRIGGS
CABELL'S-COOPER FARMS
EMBASSY
HARBISONS
HORTEN
MIDWEST FARMS
OAK FARMS
SAN-A-PURE
VELDA FARMS
WANZER'S
FOOD PRODUCTS
PACKAGING DIVISION
SPECIALTY FOODS

SPECIAL OPERATIONS GROUP
CHEMICAL
FOOD CENTERS
HUDGINS TRUCK RENTAL
REDDY ICE
SOUTHLAND DISTRIBUTION CENTERS
TIDEL SYSTEMS

CHIEF AUTO PARTS

Contents

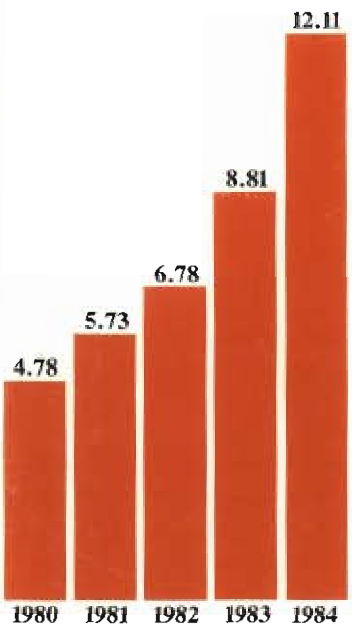
Cover: Southland family members are found in literally every part of the United States, as depicted on this map which also shows some of their many accomplishments during 1978. Representing their fellow employees are (clockwise, beginning at top left corner of the map) Jacquie DeRoshe, Columbus, Ohio; Ernie Macias, Sacramento, California; Cheryl and Chuck Lisenby, Detroit, Michigan; Sam Mazzulo, Atlanta, Georgia; Mary Vogel, Chicago, Illinois; Lily Wells, Sacramento, California; Carla Hicks, Dallas, Texas; and Libby Beccarino, Denver, Colorado.

Financial Highlights

(Dollars in thousands, except per-share data)		Year ended December 31	
Financial summary	**1984**	1983	% Change
Total revenues	**$12,105,001**	$8,805,010	37.5
Net earnings	**160,252**	131,768	21.6
Primary earnings per share	**3.41**	3.26	4.6
Fully diluted earnings per share	**3.38**	3.21	5.3
Average shares outstanding (000s)	**46,972**	40,393	16.3
Cash dividends	**43,215**	35,329	22.3
Cash dividends per share	**.92**	.84	9.5
Capital expenditures	**431,926**	641,622	(32.7)
Return on average shareholders' equity	**14.17%**	15.38%	
Financial condition at year-end			
Total assets	**3,339,772**	3,309,455	.9
Shareholders' equity	**1,195,687**	1,074,962	11.2
Long-term debt	**856,646**	1,125,643	(23.9)
Debt-to-equity ratio	**.74**	1.10	
Working capital	**256,121**	582,855	(56.1)
Book value per share	**25.39**	22.94	10.7
Number of shareholders of record	**8,927**	8,568	4.2
Number of employees	**61,800**	60,800	1.6

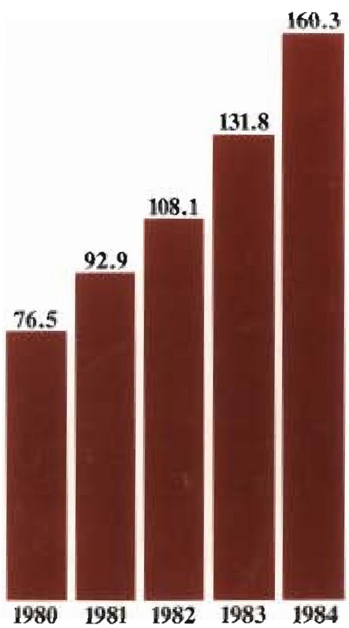
TOTAL REVENUES
(Dollars in Billions)

Compound Growth Rate: 25.6%



NET EARNINGS
(Dollars in Millions)

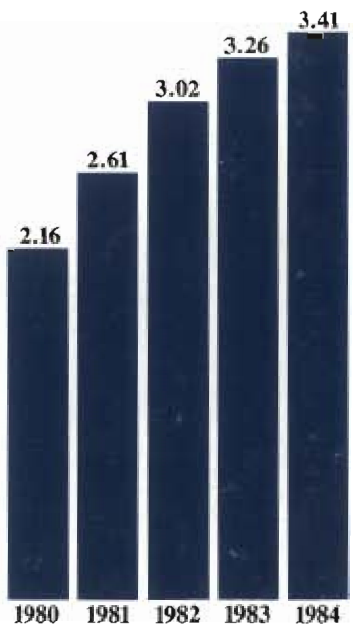
Compound Growth Rate: 19.3%*



*Based on 1979 pro forma earnings of $66.4 million

PRIMARY EARNINGS PER SHARE (In Dollars)

Compound Growth Rate: 11.4%*



*Based on 1979 pro forma earnings of $66.4 million

For the 23rd consecutive year, Southland's revenues and net earnings reached record levels as the result of another outstanding performance by 7-Eleven and our other traditional operations. Revenues were up 37.5 percent to $12.11 billion, with a large part of the increase due to the inclusion of Citgo Petroleum Corporation's sales for the full year. Net earnings were up 21.6 percent to $160.3 million, even though Citgo results were adversely affected by the worst refining industry conditions in recent history.

Due to Citgo's tax benefits, which totally offset its operating loss including interest expense, the Company had an effective income tax rate of 7.0 percent, compared with 29.0 percent in 1983. Primary earnings per share were $3.41, up 4.6 percent, based on 16.3 percent more average shares outstanding as a result of the Citgo acquisition. Fully diluted earnings per share were $3.38, up 5.3 percent, with 15.4 percent more shares.

7-Eleven, our primary business, continued its strong growth pattern, with sales up 8.1 percent to $6.42 billion and profits that were substantially greater than the prior year. Merchandise sales in stores open more than a year were up 7.4 percent, resulting in real growth of 3.7 percent after inflation, meeting our goal of three to five percent real growth. Profitability was enhanced as merchandise gross profit margins strengthened and operating expenses remained under tight control.

7-Eleven self-serve gasoline sales and profits were also up significantly for the year. The stores continued to expand market share, with volume growing 6.8 percent to 1.45 billion gallons, and the average gross profit per gallon increased 18.6 percent. Gasoline is now available at 3,173 7-Eleven stores, 166 more than at the end of 1983. Southland's total retail gallonage, which also includes Quik Mart and Super-7 volume, increased to almost two billion gallons, further strengthening the Company's position as the largest independent gasoline retailer in the United States.

7-Eleven continued to add new stores across the nation, with emphasis on the fast-growing Sunbelt states. About 90 percent of these new stores are built on high-traffic corners, and today two-thirds of the 7,473 7-Eleven stores are on these more productive sites.

Southland's International Division continued its expansion at a brisk pace in 1984. At year-end, 3,457 7-Eleven stores and other retail units, 427 more than the prior year, were operated by area licensees or affiliates in the United States and 10 other countries. Our licensee in Japan again led the growth with a net addition of 308 stores for a total of 2,217 units.

We were especially pleased with Southland's participation as a major corporate sponsor of the Summer Olympic Games in Los Angeles, the focal point of the 7-Eleven 1984 marketing program. The Olympics sponsorship was an important first step of an ongoing sports marketing program which is designed to appeal to our major customer groups.

Also in 1984, Southland's Dairies Group reported the best sales and profits in its history. The Southland Distribution Centers, which serve 7-Eleven and other customers, had solid sales and profit increases. A fifth center, which will open in mid-1985 in San Bernardino, California, will supply 7-Eleven and other customers in a market area centered around southern California. Chief Auto Parts reported strong sales and its first profitable year. Chief ended the year with 337 stores and acquired an additional 101 locations in early 1985.

In spite of the adverse refining industry conditions which affected Citgo in 1984, we continue to believe that the acquisition has added a number of excellent and valuable operations to Southland's assets. Citgo's marketing and distribution organization, together with the Gasoline Supply Division, now supplies 95 percent of

John P. Thompson and Jere W. Thompson

7-Eleven's gasoline requirements and is increasing the efficiency of our retail gasoline operations. Even though industry conditions were very unfavorable in 1984, especially in the fourth quarter, Citgo's refinery operated at a high efficiency level. This resulted from a number of productivity measures instituted by Southland and from a half-billion-dollar upgrade program which was virtually completed prior to the acquisition. This program greatly increased the refinery's yield of high-value transportation products from a wide variety of crude feedstocks.

This increased efficiency, however, did not offset the effect of the deteriorating refined products market. In December, Southland took a number of steps to minimize the impact of industry conditions, including a temporary 46 percent cutback of the refinery's operating rate to 140,000 barrels per day and a reduction in the work force of 850 employees. At this production level, the refinery is utilizing its most efficient operating units and cost-effective feedstocks.

In December, we began construction on a new corporate office tower for Southland and smaller rental buildings which will comprise our headquarters complex. The 42-story highrise will enable the Company to consolidate its widely scattered Dallas office locations for maximum efficiency and will anchor the first phase of Cityplace, Southland's mixed-use land development immediately north of Dallas' central business district. Construction of a duplicate tower and office complex, also planned for phase one, will begin when sufficient tenant interest is indicated and satisfactory financing is arranged. Other phases of Cityplace will be developed during the next 10 to 20 years as market conditions warrant.

Southland's employees, franchisees, customers and suppliers again raised more than $5 million for Jerry Lewis' Muscular Dystrophy Association Labor Day Telethon, bringing our total collections to $35 million over the past nine years. The Southland family also raised $1.6 million for the March of Dimes "WalkAmerica" in April, and Southland Dairies again served as a major corporate sponsor for the "Mothers March on Birth Defects" in January.

Capital expenditures were $431.9 million in 1984, with 61.5 percent invested in continued expansion of retail operations and 9.4 percent for completion of the final portion of Citgo's refinery upgrade. Funds provided from operations approximated the amount of capital expenditures.

In recognition of Southland's record performance in 1984, the Board of Directors increased the 1985 dividend rate by eight cents, or 8.7 percent, to $1.00 per share. This represents the 10th consecutive year in which dividends have increased and the 29th year of dividend payments. The dividend payout will represent 29.4 percent of prior-year earnings, in line with the Board's 25 to 30 percent payout guideline. The first quarterly dividend will be paid March 22 to shareholders of record on March 1.

Your Company continues to operate from a strong financial position with substantial internally generated funds, extensive unused lines of credit and a balance sheet which benefited from the refinancing of Southland and Citgo debt in 1984.

We sincerely appreciate all of the contributions of our employees, franchisees and suppliers toward another record year, and we thank you, our shareholders, for your continued support.

John P. Thompson

John P. Thompson
Chairman

Jere W. Thompson

Jere W. Thompson
President

March 18, 1985

7-Eleven – America's Convenience Retailer.

Over half the U.S. population lives within two miles of a 7-Eleven. And with two-thirds of these 7,500 7-Eleven stores located on high-traffic corners, Southland's retail sites are unmatched in both quality and quantity.

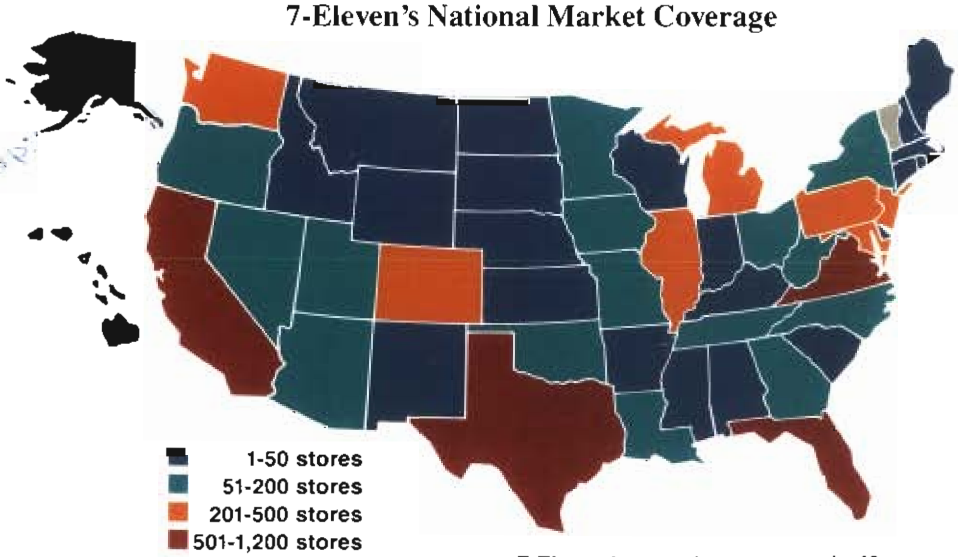
To many millions of Americans, 7-Eleven *is* convenience retailing. The 7-Eleven sign is a familiar sight in neighborhoods all across the country, standing for 24-hour convenience, high-quality products and friendly, hassle-free service. 7-Eleven is many stores in one, providing busy, on-the-go customers with just about everything they need ... from fast foods, fill-in groceries and fountain soft drinks ... to magazines, gasoline and electronic banking ... and of course, 7-Eleven's own "Slurpee."

With more stores in operation than any other American retailer, 7-Eleven has developed a strong presence in virtually every major U.S. market. With this tremendous size and scope, 7-Eleven can efficiently utilize national advertising and product promotion ... independently develop new products to meet changing customer needs ... and realize the benefits of an extensive and unique merchandise distribution system, as

well as the other advantages provided by the many strengths of 7-Eleven and Southland.

To maintain its leadership position in convenience retailing and continue its growth, Southland has invested more than a billion dollars over the past five years to expand and modernize 7-Eleven and its supporting operations. During this period, almost 2,100 new 7-Eleven stores have been opened – with 90 percent of them positioned on highly productive corner sites. These prime, high-traffic locations boost sales, maximize the profit potential of high-margin items such as fast foods, and are highly suitable for self-serve gasoline.

7-Eleven's National Market Coverage



7-Eleven has market presence in 49 states, the District of Columbia and five provinces of Canada, with 7,473 Company-operated and franchised 7-Eleven stores and another 532 units operated by area licensees.

The Leader in Marketing and Innovation.

7-Eleven is a virtual marketing machine – anticipating the changing needs of the busy American public, developing new convenience product and service concepts, and rapidly making them available to well over 7 million customers a day.

Southland has been a marketing innovator since 1927 when it pioneered convenience retailing by selling milk, eggs and bread from an ice dock in Dallas. Since that time, 7-Eleven has introduced nationally many products and services which are now industry standards, including 24-hour shopping, fountain soft drinks, hot coffee, money orders and gasoline.

Looking for new products and marketing ideas is really what 7-Eleven is all about. While much of this development is carried out by Southland's corporate marketing staff, many successful product ideas have been originated by 7-Eleven managers and franchisees. After thorough market testing, new products which meet

Fresh-made deli sandwiches, chili dogs and a wide variety of baked goods are some of the fast food ideas now being developed by 7-Eleven. Approximately 1,500 stores now offer these high-margin items, which greatly expand 7-Eleven's selection of quality fast foods.

Southland's quality and customer acceptance standards are then distributed and promoted in 7-Eleven markets throughout the United States.

7-Eleven leads the retailing industry in the expanding field of electronic customer services. Southland, one of the first retailers to test automatic teller machines, now has agreements for the installation of ATMs in 3,800 stores. The ATM is but one of several new electronic services being developed by 7-Eleven to increase store traffic and attract new customers. Other services include videotape player and cassette rentals and credit and debit card programs.

Fast foods is another area where innovation produces important high-margin growth opportunities. 7-Eleven is currently developing and testing many new fast foods such as fresh-made deli sandwiches and baked goods. These are now available in 1,500 stores, and evaluation of other new fast foods is continuing in standard 7-Elevens and in test stores where Southland is expanding the traditional convenience store concept.

While the Company continues to develop new concepts and growth opportunities, 7-Eleven never forgets the basic keys to its success – innovation, high product quality and fast, friendly service.

New 7-Eleven store formats, which Southland is testing in selected markets, feature attractive bakery-style display cases, expanded self-serve beverage bars and convenient standup tables for fast food customers.

Strength Through Integration.

Southland's other operations provide numerous products and services to 7-Eleven that enhance store productivity and customer satisfaction. They also contribute to the Company's growth through aggressive expansion of their business with outside customers.

Southland's ability to control the quality and supply of important convenience product groups has greatly enhanced 7-Eleven's growth. The Company's integrated operations not only manufacture a number of items for the stores, but also provide the many advantages of an extensive product distribution system.

Southland's four regional distribution centers (a fifth center will open in mid-1985) are an excellent example of totally integrated marketing strength. These centers enable Southland to introduce new products in markets across the United States in a matter of weeks.

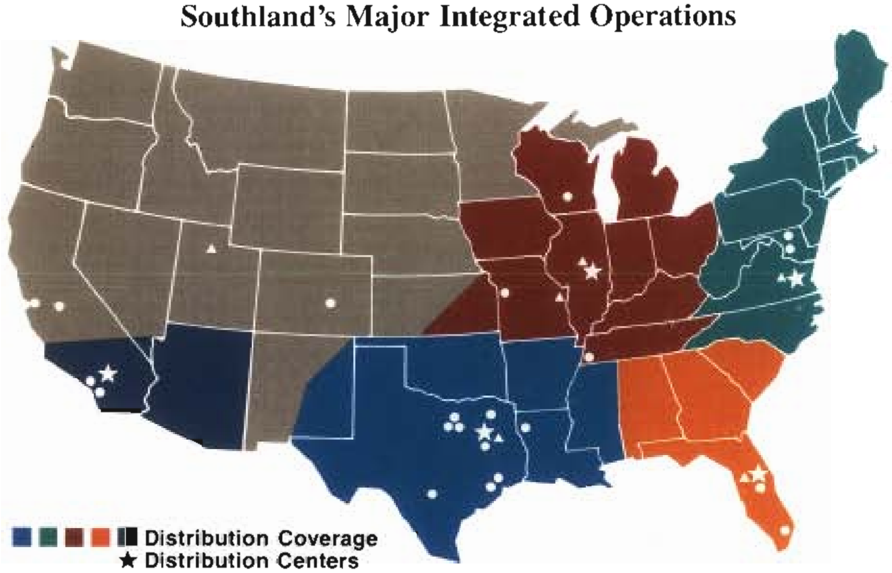
And in addition to the benefits of large-scale purchasing power, the stores get frequent deliveries, often in orders that are smaller than case lots. This allows a 7-Eleven to carry 3,000 products in its limited selling area, ensuring product freshness, seasonal changes in the product mix and fully stocked shelves.

Southland's dairies, fast food centers, snack food plants, Reddy Ice and other operations, as well as the distribution centers, directly supply 7-Eleven with many of its mainstay products in addition to providing valuable service and quality control. Sales to outside customers from these operations exceeded $718 million in 1984.

The acquisition of Citgo Petroleum Corporation in 1983 was another integration move by Southland to better assure supply and facilitate distribution of gasoline, an important 7-Eleven product.

Over 95 percent of Southland's retail gasoline volume – now two billion gallons – is supplied through its petroleum products marketing and distribution organization. Much of this gasoline is produced by Citgo's highly modernized and efficient transportation fuels refinery. In addition, a lubricants refinery and a processing facility produce over 300 lube products, a number of which are sold in Southland retail outlets.

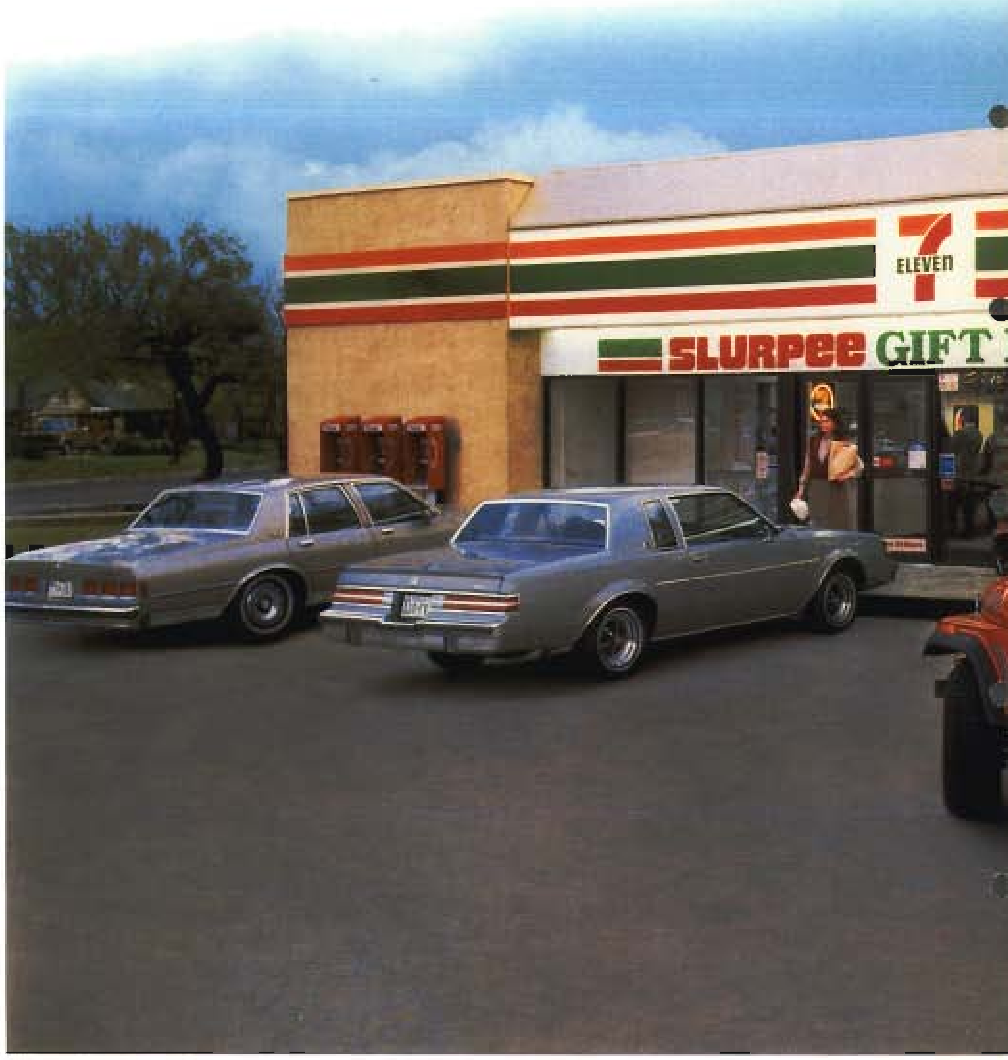
Southland's Major Integrated Operations



The distribution centers, dairies, food centers and other supporting operations provide 7-Eleven with better control over product supply and quality.

The convenience retailing segment posted record sales of $7.71 billion, an increase of 13.0 percent over the prior year, and accounted for 64.4 percent of Southland's total sales. Operating profits were up 12.8 percent to $268.8 million and represented 85.7 percent of total operating profits.

Sales from the International Division's retail units are not reported as revenues of Southland. Equity in earnings of affiliates and royalties from area licensees are included in the convenience retailing segment's operating profit.



7-Eleven Posts Another Record Performance

7-Eleven sales increased 8.1 percent to $6.42 billion, representing 83.3 percent of the convenience retailing segment. Merchandise sales increased 9.7 percent. In stores open more than twelve months, merchandise sales increased 7.4 percent, with real growth of 3.7 percent after inflation – meeting the Company's goal of three to five percent real growth.

Merchandise gross margins, excluding amusement games, showed significant improvement over the prior year, a result of marketing emphasis on higher-margin products. In addition, increases in store operating expenses were held below increases in gross profit dollars, which produced good profit gains.

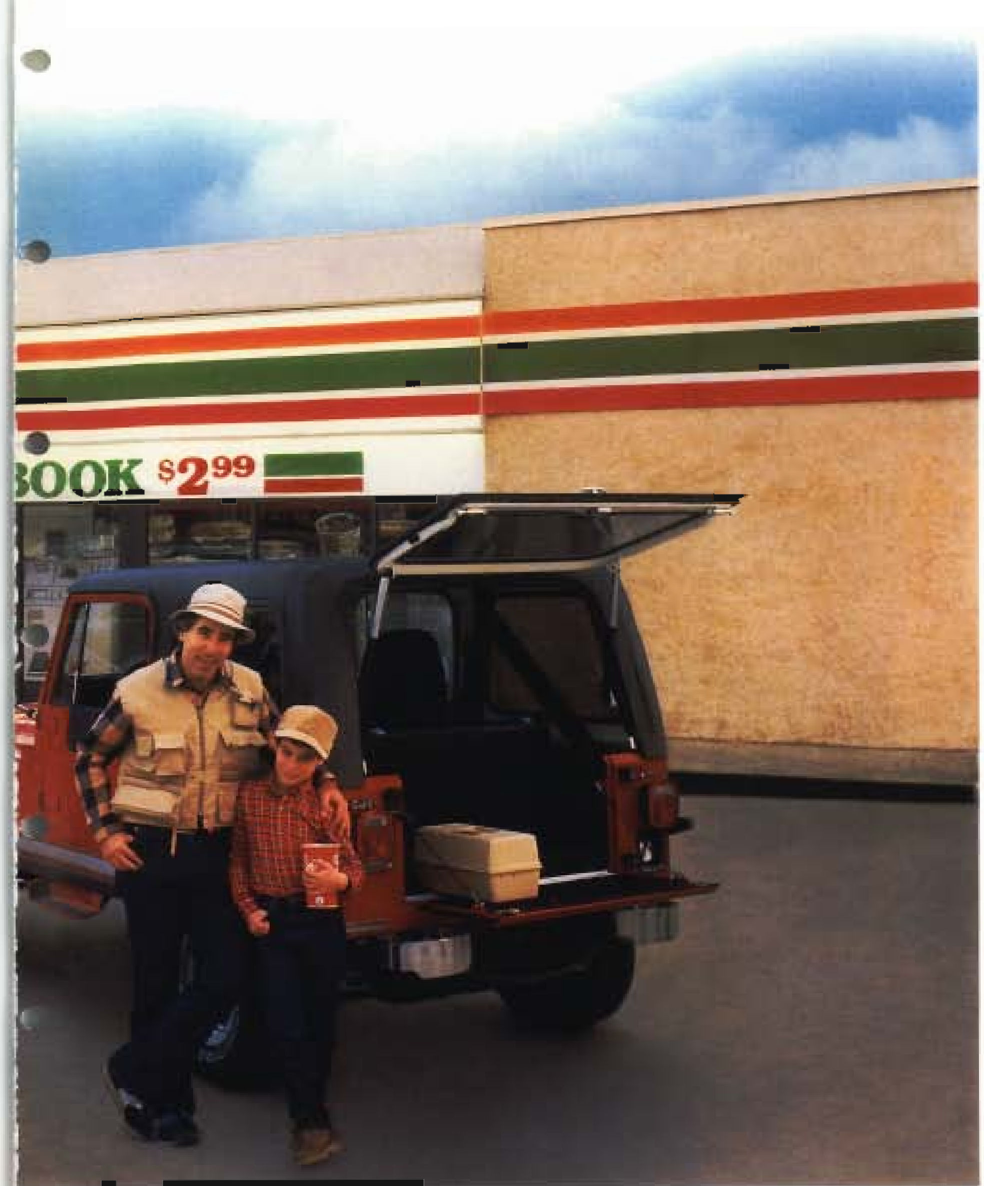
Retail Gasoline Volume Approaches Two Billion Gallons

Southland, the nation's largest independent gasoline retailer, sold 1.95 billion gallons in 1984 through 7-Eleven and other Southland self-serve outlets.

7-Eleven gallonage increased 6.8 percent to 1.45 billion gallons, continuing a decade of growth in market share while total gasoline consumption in the United States remained relatively flat. At year-end, gasoline was available at 3,173 stores or 42 percent of all locations. Total gross profit dollars increased substantially due to a 19 percent increase in gross profit per gallon, higher gallonage per store and the net addition of 166 gasoline locations.

Segment Operating Results

(Millions)	1980	1981	1982	1983	**1984**	**Five-Year Compound Growth**
Sales	$4,335.5	$5,187.2	$5,816.3	$6,820.7	**$7,707.3**	**17.2%**
Operating Profit	173.1	212.6	222.5	238.2	**268.8**	**14.0%**



7-Eleven is experimenting with new concepts in store appearance and design. This is one of several test stores in Austin, Texas.

7-Eleven leads the nation in automatic teller machines with units in 1,000 stores and agreements signed for installation of an additional 2,800 machines. The Company's goal is to provide this electronic service to customers at most 7-Eleven locations.

In addition to 7-Eleven, Southland operates 41 Super-7 stores, as well as 291 Quik Mart units. These 332 high-volume gasoline locations sold 497 million gallons in 1984. Both Super-7 and Quik Mart also sell a limited assortment of convenience merchandise.

Two-Thirds of 7-Eleven Stores Now on Corners

The Company opened 398 stores in 1984, with approximately 90 percent located on highly visible corner sites. Over 68 percent of all 7-Eleven stores are now on corners. During the year, 224 units were closed, for a net increase of 174 locations. Of the closed stores, 62 were relocated to better sites, while 162 were closed due to changing market patterns and lease expirations. At the end of the year, 7,473 stores were open in 41 states, the District of Columbia and five provinces of Canada, with 38 percent of the units operated by franchisees.

7-Eleven is the third largest seller of fountain soft drinks in America due to quality, convenience, value and selection. Only at 7-Eleven does a customer have a choice between Coca-Cola, Pepsi-Cola and four other fountain drinks.

Marketing Targets Fast Food Audience, New Customer Groups

Southland moved aggressively in 1984 to attract customers from the 20 percent of the population that rarely shops convenience stores.

7-Eleven appealed to price-conscious consumers by increasing promotions of competitive pricing on such items as milk, cartons of cigarettes, soft drinks and case beer. The Company also made significant progress toward its goal of providing automatic teller machine (ATM) service to 7-Eleven customers across the country. Agreements were negotiated in 1984 for 2,120 units to be installed in 7-Eleven stores by financial institutions or third-party networks, for a year-end total of 2,800 planned installations and 1,000 units already in operation.

Chief Auto Parts is boosting sales with extended hours, self-serve store formats and a new warranty unmatched by its competitors. In 1984, Chief opened 41 stores and recently acquired 101 additional units, the majority of which are located in Texas.

The stores are also testing other electronic customer services, such as videotape player and cassette rentals, lottery ticket sales and gasoline debit card systems. Like the newly installed ATMs, these services are expected to attract new customer groups and increase traffic by offering an attractive blend of convenience and self-service.

7-Eleven Sales by Category

Gasoline	24.8%
Tobacco Products	14.4
Beer/Wine	11.4
Groceries	10.5
Soft Drinks	10.5
Non-Foods	7.0
Dairy Products	5.7
Other Food Items	5.3
Candy	4.0
Baked Goods	3.6
Health/Beauty Aids	2.8
Total	100.0%

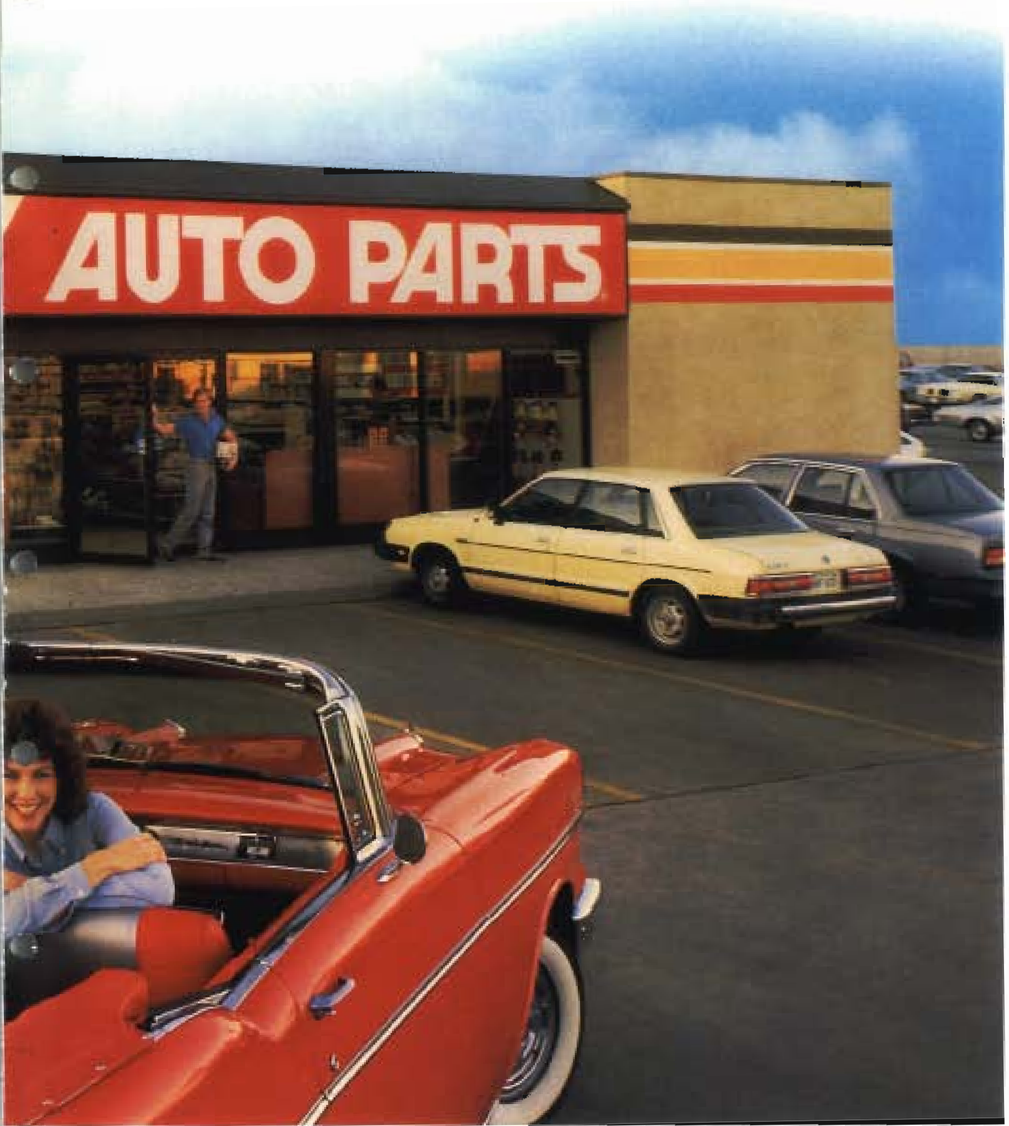
The Company does not record sales by product lines, but estimates the percentage of 7-Eleven sales by principal product category based upon total store purchases.

Southland's 332 Quik Mart and Super-7 high-volume gasoline locations strengthen its position as the nation's largest independent gasoline retailer.

7-Eleven Offers New High-Quality Fast Foods

7-Eleven expanded and upgraded its fast food program across the country as well as tested new service concepts in certain experimental stores in Texas and Virginia. In addition to greatly expanding hot dog sales, the stores added chili dogs and chili/cheese dogs to the fast food menu and began testing fresh-baked goods in many areas. Fresh-made deli-style sandwiches are now offered in more than 1,500 stores, giving 7-Eleven customers the choice of a wide range of fast foods at one convenient location.

Familiar products such as "Slurpee" and fresh hot 7-Eleven coffee



From Tokyo to Stockholm, from Sydney to Hong Kong, 7-Eleven convenience is growing in popularity around the world. This store in a London suburb is one of 15 opened by the United Kingdom licensee in its first year of operation.

set new sales records due to strong in-store promotion. 7-Eleven also built on the success of its 32-ounce "Big Gulp" by introducing "Super Big Gulp," the first 44-ounce fountain soft drink on the market.

Sports Marketing Continues With Auto Racing Sponsorship

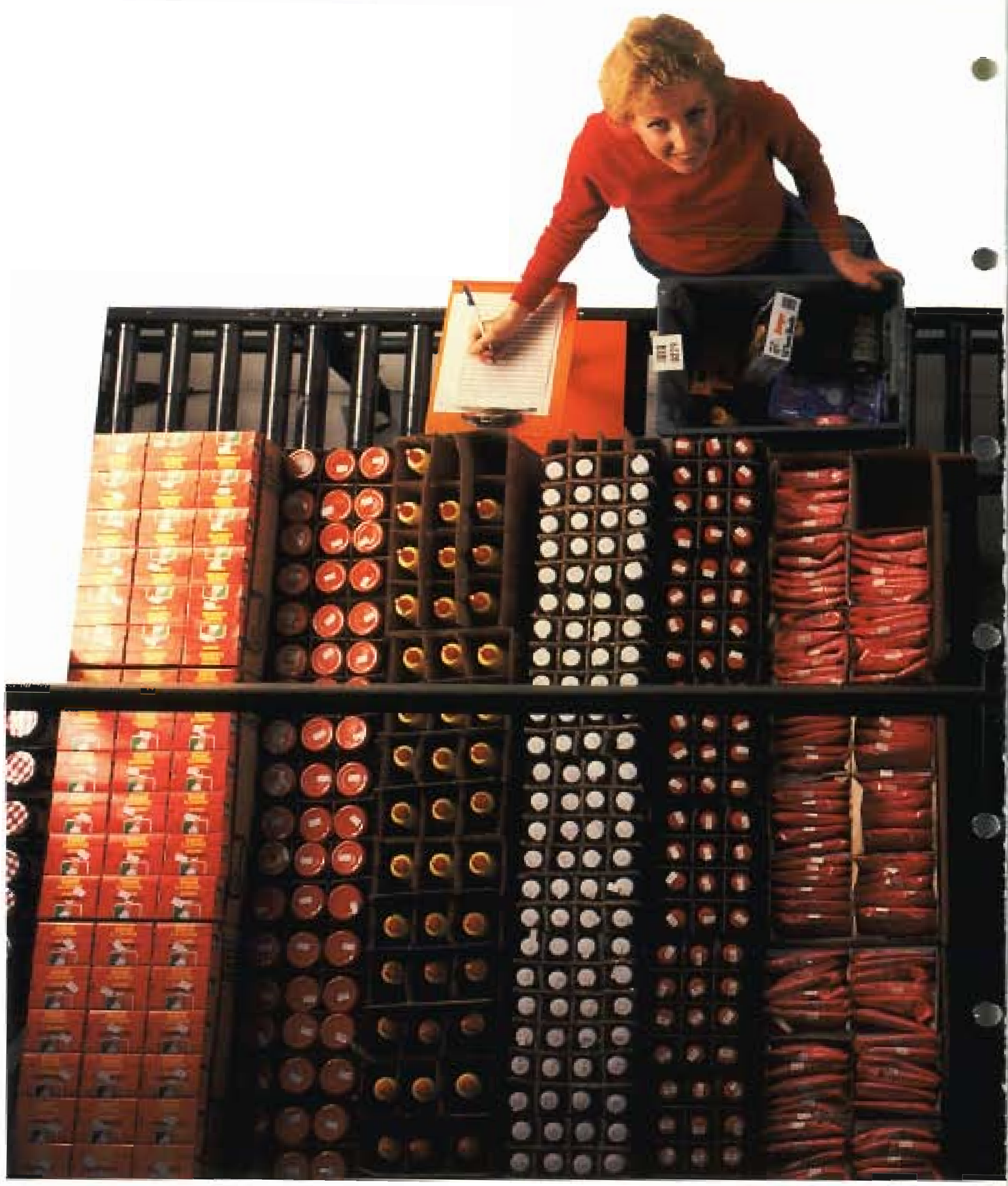
7-Eleven's 1984 Olympic marketing theme, "The Dream Begins With Freedom," was a natural and successful extension of the "America Likes the Freedom of 7-Eleven" campaign. Television commercials featuring top American athletes reinforced 7-Eleven's image of excellence, which the Company will continue to promote through a sports marketing program. 7-Eleven, Citgo and Chief Auto Parts are now sponsoring ten cars in seven series of auto racing, a spectator sport very popular with a key customer group, the 18-to-39-year-old male. Drivers of Southland cars won the 1984 Trans-Am and Off-Road National Championships, and four other drivers finished in the top three places of their series.

Chief Increases Market Presence in California, Texas

Chief Auto Parts opened a net 41 stores in 1984, the largest increase in three years. At year-end the chain operated 337 stores, located in California and Texas and three other Sunbelt states. In early 1985, Chief acquired 101 stores, more than half of which are located in Texas, further strengthening Chief's market presence in that high-growth area. Even before the acquisitions, Chief was the nation's largest convenience retailer of automobile replacement parts and accessories operating under one name.

Chief reported a profit for the first time in 1984 after nearing break-even the prior year. Sales were up almost 23 percent despite greatly increased competition in California, Chief's largest market. Virtually all of the units built during 1984 feature a larger store format with wider merchandise selection, which has generated greater traffic and contributed to a higher average transaction.

In early 1985, the chain announced a new five-year/50,000-mile limited warranty for certain parts – a warranty unmatched by other



retailers in the automobile replacement parts industry. Aggressive advertising supporting the new warranty, as well as the chain's competitive pricing and convenient hours, will further differentiate Chief from its competitors.

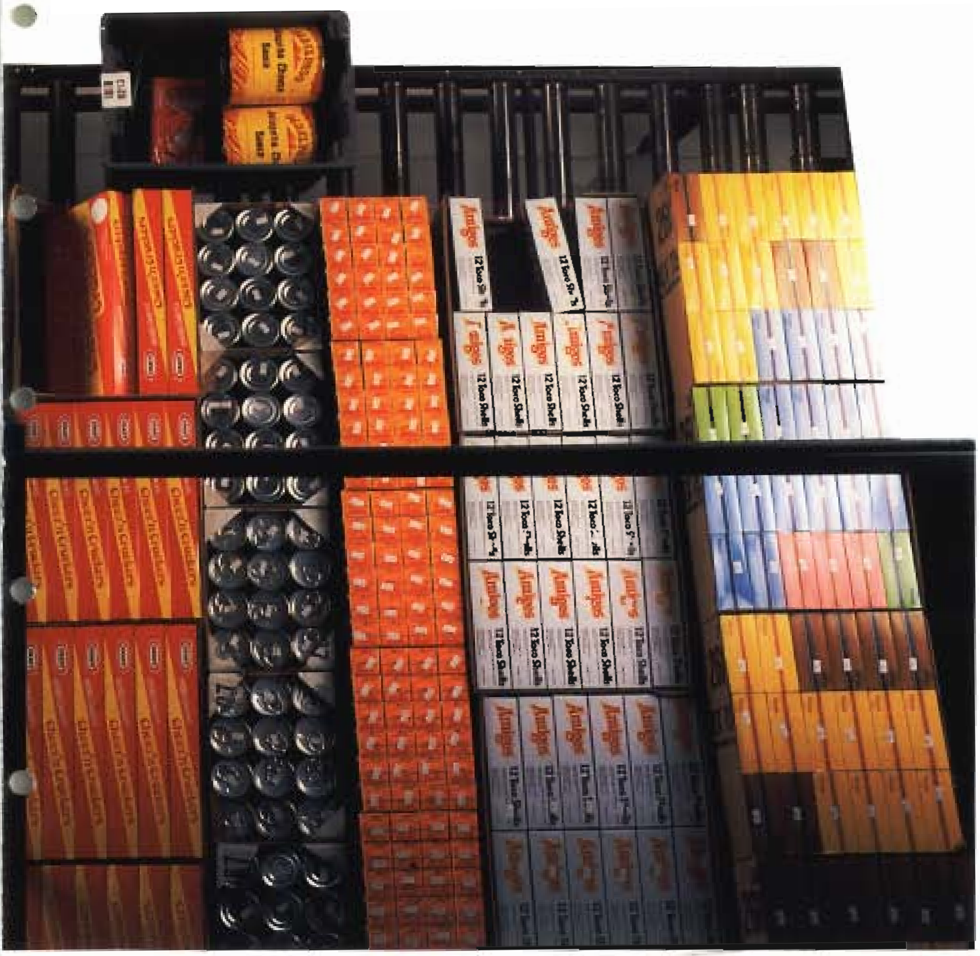
Southland International Continues Overseas Expansion

Southland's International Division coordinates the activities of 3,457 7-Eleven and other small retail units operated by area licensees or Company subsidiaries in the United States and 10 other countries. Southland's Japanese licensee, Seven-Eleven Japan Co., Ltd., continued to lead growth abroad by opening a net 308 stores in 1984, for a total of 2,217. The Hong Kong licensee added 36 units for a total of 95, while in Singapore 13 stores were opened during the licensee's second year of operation for a total of 18. At year-end, the Taiwan licensee operated 64 units, and two 7-Eleven stores had been opened by the licensee in the Philippines. A new license agreement was signed for Malaysia, and three stores were open by year-end. The Australian licensee ended the year with 69 stores and entered into an agreement with Shell Australia Ltd. that is expected to provide strong growth opportunities.

The distribution centers' computerized inventory ordering system can be used by 7-Eleven or outside customers for fast, efficient ordering and customizing of inventory to fit the special needs of each store.

In the United Kingdom, the 7-Eleven licensee opened 15 stores in its first year of operation. Southland's own U.K. subsidiary, R S McColl, operated 349 confectionery, tobacco and news stores in Scotland and England. The Company's Swedish subsidiary operated 49 convenience stores at year-end. Southland also owns an equity interest in a company which operates 44 Super Siete convenience stores in Mexico, 12 more than in 1983.

Although highly automated, the distribution centers still rely on manual item "picking" for the non-case-lot portion of each store's weekly order. The centers can supply about 60 percent of a 7-Eleven's merchandise.



7-Eleven's capability to order merchandise in less-than-case-lot quantities increases the number of items stocked, improves inventory turnover, maintains fresher merchandise and produces higher sales and profits from the convenience store's limited selling space.

Nine American companies hold licenses to operate 7-Eleven stores in designated areas of 23 states, with 532 stores open at the end of 1984. The newest licensee is in Alaska and operated 12 stores at year-end.

Gristede's Emphasizes Manhattan

Gristede's, quality grocer to the New York City area for 93 years, continued to concentrate its resources in Manhattan, historically the chain's strongest market. At year-end, Gristede's operated 36 supermarkets and service stores in addition to 12 Charles & Co. sandwich and gourmet shops.

Distribution Group Builds Fifth Center, Increases Outside Sales

Southland's four distribution centers supply retail and food service customers in 35 states and the District of Columbia, including 66 percent of the 7-Eleven stores. Total 1984 sales were $1.13 billion, up 8.7 percent from 1983. Outside sales accounted for $274.9 million, an increase of 12.7 percent. Profits were up substantially due to enhanced productivity and the strong sales growth.

The centers are strategically located in Orlando, Florida; Tyler, Texas; Fredericksburg, Virginia; and Champaign, Illinois. A fifth distribution center, now under construction in San Bernardino, California, will begin serving customers in mid-1985. This center will offer 7-Eleven franchisees in the Los Angeles, San Diego and Las Vegas markets a state-of-the-art distribution system similar to that offered by the other four centers. This new facility will use design and equipment technology developed at the other centers to achieve comparable capacity in a smaller building.

Food Processing and Manufacturing

The food processing and manufacturing segment includes the dairies and food centers, as well as other businesses which produce and market products to Southland operations and a rapidly growing number of outside customers. Segment sales increased 11.8 percent to $787.5 million. Outside sales increased 12.1 percent to $443.6 million, accounting for 56.3 percent of the segment total. The Dairies Group and Tidel Systems posted substantial increases in both sales and profits, and El-Ge Potato Chip Company, acquired in late September, also made a contribution to the year's profits.

Dairies' Marketing Strategy Achieves Impressive Gains

The Dairies Group operates under 11 well-known regional brand names and services customers in all 50 states, the District of Columbia and Canada. It is one of the largest dairy processors and distributors in the nation. Customers include more than 5,200 7-Eleven stores, as well as many other retail, institutional and food service accounts. Sales increased 11.8 percent, while operating profits were also up substantially in 1984, despite a severe raw milk shortage in the Southwest caused by changes in federal dairy farm subsidies. Sales to outside customers represent 57.1 percent of the total.

For the past two years, the Dairies Group has achieved substantial profit increases through stringent cost control measures, as well as by emphasizing high-margin items. By promoting ice cream, frozen confections, cultured and ultra-pasteurized products and juices, Southland's dairies have maintained a healthy growth rate while fluid milk consumption in the United States has remained relatively flat.

Ice Cream and Frozen Novelty Sales Boost Dairies' Expansion

Already one of the major manufacturers of frozen novelties in the United States, the dairies posted significant sales and production increases in this area during 1984. The Dole "Fruit 'N Juice Bar," produced and distributed under an exclusive licensing agreement, continued its impressive sales growth, and the dairies also

Segment Operating Results

(Millions)	1980	1981	1982	1983	**1984**	**Five-Year Compound Growth**
Outside Sales	$422.4	$420.8	$397.0	$395.8	**$443.6**	**3.4%**
Intersegment Sales	211.5	242.0	275.6	308.7	**343.9**	**11.9%**
Total	633.9	662.8	672.6	704.5	**787.5**	**6.6%**
Operating Profit	17.6	16.7	17.8	24.7	**29.2**	**9.0%**

Southland's Dairies Group, one of the largest processors of dairy products in the country, serves 7-Eleven and other customers in 50 states, the District of Columbia and Canada.

Licensing agreements for the manufacture and distribution of a variety of popular name-brand products have greatly expanded the dairies' line of specialty items.

"Mission San Juan" all-natural juices are one of the higher-margin items produced and marketed by Southland Dairies. Such items now account for one-third of the group's sales and are contributing substantially to the dairies' increased profit potential.

began to manufacture Dole "Fruit Sorbet" under exclusive license. Capacity was increased at the Merritt Foods and Specialty Products plants to handle the increased demand for these items, as well as Southland's own popular frozen novelties such as the "Big Wheel" and "Big Deal." Sales of cultured and ultrapasteurized products and ice cream also continued to rise.

"Farmfield" and "Mission San Juan" Juices Show Strong Growth

The dairies process and market two distinctly different juice lines. Sales of "Farmfield," a long-established line of juice drinks, responded well to increased promotions across the country. "Mission San Juan," an all-natural premium juice line which has been highly successful in single-serve sizes, was introduced in a new quart container for testing in supermarkets. In addition, Embassy Dairy is expanding the "Farmfield" line with the introduction of carbonated juices and juice drinks.

Food Centers Increase Outside Sales 51 Percent

Southland's six food centers, located at each of the distribution centers and in Salt Lake City and St. Louis, support the 7-Eleven fast food program with a complete line of sandwiches and other food items. Aggressive marketing to vending and convenience store accounts produced a 50.8 percent increase in outside sales in 1984.

The Salt Lake City plant, which produced 28 million burritos for

7-Eleven stores and other customers in 1984, successfully marketed burritos in a new larger size. The food centers expanded their product line with two new specialty sandwiches. The St. Louis plant introduced a baked sandwich in four varieties, now being tested in the Northeast and Midwest. Five varieties of croissant sandwiches, which were also introduced in 1984, will be distributed nationally beginning in early 1985. In addition, the "Italini" line of French bread pizza, which is enjoying increased popularity, was expanded to include three new varieties.

El-Ge Acquisition Expands Specialty Foods Business

Southland acquired the El-Ge Potato Chip Company, one of the largest independent manufacturers of potato chips in the Northeast, in September 1984. This continued the Company's expansion into high-margin snack foods that began with the acquisition of Pate Foods in 1983. El-Ge, which has been a 7-Eleven supplier for 25 years, manufactures a line of potato chip products under its own brand name, as well as generic and private labels. Pate Foods doubled its capacity for corn-based products with the opening of a new 90,000-square-foot plant in South Beloit, Illinois. Pate distributes corn chips, popcorn and other products in 14 North Central states.

Tidel expanded its product line with the introduction of the "Gas Tank Monitor" in 7-Eleven stores beginning in early 1985. The unit provides centralized inventory control of multiple gasoline tanks. Tidel also produces the "Timed Access Cash Controller," now in all 7-Eleven stores and a growing number of other retail locations.

Chemical Division Increases Sales of Food Ingredients

The Southland Chemical Division manufactures a broad line of food ingredients and specialty chemicals for other Southland operations and many outside customers. Outside sales account for 76 percent of total sales. The division's Food Lab operation, which manufactures preservatives, emulsifiers, food flavorings, "Slurpee" flavor

Southland's six food centers and its snack food operations produce a complete line of sandwiches, French bread pizza, burritos and chips, as well as flavored syrups for the 7-Eleven "Slurpee," to support the Company's fast food program. Many of these products are also sold to outside customers.

Reddy Ice is the largest manufacturer of fragmentary ice in the world, producing 156,000 tons annually, which are sold to 7-Eleven, other retailers, distributors and high-volume food shippers.

concentrates, and food industry sanitizers and cleansers, consolidated its operations in Dallas for greater efficiency. Food Lab sales of "Nature-Lock" aseptically processed fruits and flavors continued to increase.

The Food Lab began to produce potassium benzoate, an important ingredient in salt-free soft drinks, and also developed flavorings for a fruit-flavored drink now being tested in selected 7-Eleven stores.

Reddy Ice Serves Major Markets in Four States

Outside customers account for 66 percent of the sales of Reddy Ice, Southland's original business and the largest manufacturer of fragmentary ice in the world. The division operates eight plants near fast-growing markets in Texas, Oklahoma, Nevada and Florida.

Tidel Begins Installation of Gasoline Tank Monitor

Tidel Systems posted substantial sales and profit gains in 1984 as its "Timed Access Cash Controller," a cash dispensing system and drop safe, gained wider acceptance by security-conscious retailers.

Tidel also completed initial design and testing of its "Gas Tank Monitor," which uses sonar and microprocessor technology to provide inventory control of multiple gasoline storage tanks. Tidel's unit is extremely accurate in measuring fuel in storage tanks and can also detect leaks – fulfilling an important need of the gasoline industry. The monitor can also electronically transmit information on the tank status to another location, forming a network that can be monitored from a central point. Tidel will begin installing the units in 7-Eleven stores in early 1985.

For the past four years, Tidel has used its metal fabricating capability to manufacture carts, dollies and stainless steel fast food counters for 7-Eleven and other Southland operations. These products again accounted for a significant portion of Tidel's total sales.

Gasoline Refining and Supply

The gasoline refining and supply segment includes the refining, marketing and transportation operations of Citgo Petroleum Corporation and the Gasoline Supply Division. Total segment sales were $5.40 billion, of which $3.88 billion or 72 percent was to outside customers.

Refining Industry Conditions

Over the past several years, excess capacity in the refining industry has created an imbalance in supply and demand for petroleum products. Although industry shutdowns of 2.5 million barrels of daily production capacity have alleviated the problem to some extent, the imbalance is expected to continue until substantially more marginal capacity is taken out of production. In addition, market anticipation in late 1984 of lower world crude prices caused refined product prices to fall sharply. While Citgo's cost of crude did decrease somewhat during this period, wholesale product prices fell even faster, greatly eroding the refinery's margin. Industry profitability will remain under pressure until crude and refined product price differentials stabilize.

Citgo Moves to Reduce Impact of Current Conditions

During the year, Citgo took several major actions to offset the effect of this dislocation in crude and refined product pricing by increasing the refinery's efficiency and flexibility. Labor contracts with six unions were ratified with no interruption in work schedules. Working capital needs were reduced substantially by lowering inventories to minimum operating levels, and production costs were significantly reduced.

Citgo also began lowering the refinery's average cost of crude by reducing its posted prices paid for domestic crudes. These feedstocks accounted for about half of the crude processed in 1984. In addition, Citgo is processing its most cost-effective feedstocks and is augmenting short-term crude contracts with spot purchases at advantageous prices.

In late December, as downward pressure on refined product prices increased, Citgo reduced the refinery's effective operating rate to 140,000 barrels per day, 46 percent less than the 1984 average rate of

Segment Operating Results

(Millions)	1981	1982	1983	**1984**
Outside Sales	$ 84.8	$ 542.6	$1,554.7	**$3,882.0**
Intersegment Sales	18.5	713.2	1,198.7	**1,520.5**
Total	103.3	1,255.8	2,753.4	**5,402.5**
Operating Profit*	3.0	22.9	22.7	**15.5**

*Does not include interest expense or equity in earnings of pipeline companies

Southland's extensive petroleum products marketing and distribution operation serves 95 percent of 7-Eleven's gasoline requirements, as well as 3,500 Citgo-branded independent retailers. During 1984, Citgo became the first refiner/marketer to begin testing a three-grade unleaded gasoline program in five key markets, taking advantage of the refinery's capability to produce only unleaded gasoline.

The new coker and hydrocracker became fully operational in 1984. These units, which complete the refinery upgrade program begun before Southland's acquisition of Citgo, increase the refinery's flexibility to produce a greater yield of high-value transportation fuels from a wider variety of crude feedstocks.

258,000 barrels per day. At that time, the refinery began operating in a "single-train" mode, using only its most efficient units, to reduce costs. Citgo also reduced its work force by approximately 700 of the refinery's 1,500 employees and 150 positions at the Tulsa headquarters and field locations.

Citgo has maintained its supply commitments to wholesale and retail customers by increasing purchases of refined products in the open market. The refinery's non-operating units remain on a standby basis, ready to resume full production as soon as market conditions normalize.

Coker, Hydrocracker Increase Efficiency, Add Profit Potential

The refinery has the flexibility to process a wide variety of crude feedstocks, an advantage that is significantly enhanced by its new coking unit. The coker, part of Cities Service Company's upgrade program which was completed by Southland, became fully operational on April 1, 1984. It has been operating at an average rate of 44,000 barrels per day, or 25 percent higher than design capacity, greatly increasing the refinery's ability to process the heavier grades of crude oil. The hydrocracker, the last component in the Cities modernization program, began operation in March 1984. This unit gives the refinery greater production flexibility and increases the yield of gasoline and other high-value transportation fuels. In addition, the refinery can shift its gasoline production to 100 percent unleaded, positioning it to benefit from the growing consumption of unleaded gasoline and the Environmental Protection Agency phase-down of leaded gasoline beginning in mid-1985.

Marketing Supplies 95 Percent of 7-Eleven Gasoline Needs

Citgo's marketing and distribution organization has become increasingly important to the 7-Eleven retail gasoline operation. Together with the Gasoline Supply Division, it supplied 95 percent of the stores' requirements by the end of 1984. Other customers include 3,500 Citgo-branded retail units served by 284 independent distributors. The Gasoline Supply Division provides gasoline to the balance of the 7-Eleven stores and has also continued its outside distribution and exchange activities. This division contributed about $24 million in operating profit in 1984.

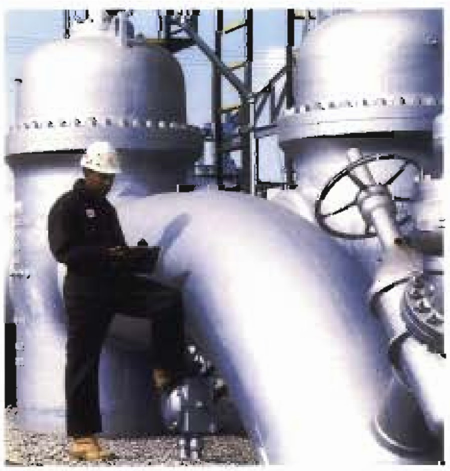
Storage capacity of 16.5 million barrels at 40 Southland refined product terminals and exchange agreements with 274 other terminals across the country provide Citgo with great flexibility to fulfill the Company's 1.95-billion-gallon retail gasoline requirement. Citgo's marketing group also obtains refined products through spot purchases on the open market to further support its operations.

During 1984, Citgo instituted a computerized program, the first of its type, which tracks various products through the distribution system and determines the most efficient and profitable modes of transportation. By matching distribution patterns more closely with demand, the new system can greatly lower refined product inventories and ensure efficient delivery to 7-Eleven, Quik Mart, Super-7 and outside customers.

Citgo developed the industry's first all-unleaded gasoline program which offers three grades of fuel by introducing "Unleaded Plus 2" in five test markets. This new product offers the consumer a middle-grade unleaded gasoline. Rated two octane points higher than most regular unleaded gasolines, "Unleaded Plus 2" capitalizes on the refinery's ability to produce all-unleaded gasoline.

A brand identification program was also launched during the year to strengthen the name awareness and image of the Citgo brand.

Citgo's Lubricants and Specialty Products Division manufactures 300 products, ranging from high-grade motor oils to industrial lubes and waxes, for Citgo and a number of outside customers. Several of these lubricants are packaged in funnel-top and "elephant trunk" containers, both of which Citgo introduced to the industry.



Citgo owns various interests in 15,567 miles of pipelines, including an extensive crude gathering network and major common carrier refined product pipelines such as the Explorer and the Colonial.

This program emphasizes distributors' signage, outlet appearance and integration with Citgo's overall marketing strategy.

In addition, Citgo provides aviation turbine fuel to national, regional and commuter airlines at 18 airports in the United States. In 1984, aviation fuel volume increased 22 percent.

Lubricants Operation and Pipelines Valuable Citgo Assets

The Lubricants and Specialty Products Division includes a 65 percent interest in the Cit-Con lubricants refinery at Lake Charles, the sixth largest in the United States, and a blending and packaging plant in Cicero, Illinois.

The division's sales were up strongly, as were profits. CITGO brand motor oil became available at many 7-Eleven and Chief Auto Parts stores. In addition, Citgo introduced a two-quart motor oil container with a flexible "elephant trunk" pouring spout, similar to the funnel-top plastic container pioneered by Citgo in 1978 which has become an industry standard. The Lubricants Division also developed Citgo Racing Oil for high-performance engines and an all-season motor oil that exceeds manufacturers' specifications for new cars.

Citgo has ownership interests in 15,567 miles of crude gathering and refined product pipelines. Included in these assets are a 13.98 percent interest in the 5,248-mile Colonial pipeline, the principal means for transporting Gulf Coast refined products to 13 Sunbelt and Eastern Seaboard states, and a 6.8 percent interest in the 1,397-mile Explorer pipeline, which serves major markets in the Midwest.

Selected Financial Data

The Southland Corporation and Subsidiaries

(Dollars in thousands, except per-share data)	1984	1983	1982	1981	1980
Operations					
Net sales	**$12,034,871**	$8,772,067	$6,756,933	$5,693,636	$4,758,656
Other income	**70,130**	32,943	25,450	40,524	23,949
Total revenues	**12,105,001**	8,805,010	6,782,383	5,734,160	4,782,605
Increase over prior year	**37.5%**	29.8%	18.3%	19.9%	23.4%
Net earnings	**160,252**	131,768	108,051	92,860	76,506
Increase over prior year	**21.6%**	21.9%	16.4%	21.4%	15.2%*
Per revenue dollar	**1.3%**	1.5%	1.6%	1.6%	1.6%
Interest coverage ratio	**2.41**	3.53	4.87	4.46	3.83
Return on average shareholders' equity	**14.2%**	15.4%	16.6%	16.1%	14.9%
Assets Employed					
Working capital	**256,121**	582,855	113,012	165,852	199,402
Current ratio	**1.23**	1.58	1.22	1.36	1.53
Property, plant and equipment	**1,815,974**	1,589,924	1,159,337	963,865	854,010
Depreciation and amortization	**165,749**	145,105	121,701	100,831	89,847
Total assets	**3,339,772**	3,309,455	1,842,254	1,654,598	1,496,242
Capitalization					
Long-term debt	**856,646**	1,125,643	582,980	534,503	537,288
Shareholders' equity	**1,195,687**	1,074,962	703,348	612,221	545,282
Total capitalization	**2,052,333**	2,200,605	1,286,328	1,146,724	1,082,570
Debt-to-equity ratio	**.74**	1.10	.87	.91	1.03
Per-Share Data					
Primary earnings	**3.41**	3.26	3.02	2.61	2.16
Earnings assuming full dilution	**3.38**	3.21	2.94	2.54	2.10
Cash dividends	**.92**	.84	.77	.70	.62
Shareholders' equity at year-end	**25.39**	22.94	19.48	17.23	15.37
Other Data					
Cash dividends	**43,215**	35,329	27,657	24,859	21,511
Dividends as a % of prior-year net earnings	**32.8%**	32.7%	29.8%	32.5%	32.4%*
Average shares outstanding	**46,972,037**	40,393,082	35,772,689	35,513,515	35,460,071
Average diluted shares	**47,501,423**	41,146,341	36,970,068	36,899,129	36,875,263
Market price range					
High	**36½**	48¼	31½	23⅜	19½
Low	**23**	25⅛	17	13⅝	11⅜
Year-end	**27⅛**	32⅛	25⅞	21⅛	13⅝
Number of shareholders of record	**8,927**	8,568	7,532	7,336	8,429
Number of employees	**61,800**	60,800	49,900	49,600	46,800

*Based on 1979 pro forma earnings of $66.4 million

Financial Review

SiRAT

Southland's financial objective is to maintain a balance between sustaining above-average operating performance and preserving the financial foundation required to support the Company's continuing expansion. The Company has consistently achieved this objective, with 23 consecutive years of higher revenues and earnings and an unbroken record of dividend payments reaching back to 1957.

As the "Selected Financial Data" on the facing page illustrates, over the past five years Southland has produced a record of solid growth and maintained its financial strength. Even without the addition of Citgo sales, total revenues have grown at a compound rate of 16.1% during the past five years. With Citgo included, total revenues have shown annual compound growth of 25.6%. Compounded annually, net earnings have increased 19.3%, while primary earnings per share were up a lesser extent to 11.4%, largely due to the impact of additional shares issued in the acquisition of Citgo. The dividends paid per share and the book value per share have grown 12.1% and 12.9% annually.

A detailed discussion of the Company's overall financial position follows, with emphasis placed on the financing activities undertaken during the year.

Balance Sheet

The acquisition of Citgo in 1983 and refinancing activities completed in 1984 resulted in a number of changes in the balance sheet. Both working capital and the current ratio increased in 1983 because the large inventory and accounts receivable levels needed for Citgo were financed through long-term obligations. Those long-term debt facilities also increased Southland's leverage as indicated by the debt-to-equity ratios. In 1984, the sale of receivables and the discharge of some debt lowered working capital and the current ratio, while improving the debt-to-equity ratio to below pre-acquisition levels. These actions will also reduce interest costs while releasing Citgo assets previously pledged as collateral.

The decline in the interest coverage ratio reflects the increased debt levels maintained throughout most of 1984, as well as Citgo's operating performance. This ratio will improve due to the above financing actions, and will improve further when the refining industry returns to profitability.

The return on shareholders' equity was 14.2%, despite the dilutive effect of shares issued in the Citgo acquisition and Citgo's performance in 1984.

Sources of Funds

Although outside financing is an important source of funds, Southland's operations consistently fund the majority of the Company's growth. Net earnings of $160.3 million in 1984 together with expenses not requiring the use of cash, principally depreciation and amortization, generated $367.6 million.

Although pre-tax earnings decreased from the prior year, tax benefits arising from Citgo more than offset Citgo's operating loss including interest costs, and contributed to the 21.6% increase in net earnings for the Company. A total of $48 million of Citgo tax benefits was recognized in 1984, and approximately $110 million remains available, most for use through 1988.

The sale of $250 million of accounts receivable was the other major source of funds.

Uses of Funds

Capital expenditures of $431.9 million were the second highest in the Company's history, with only 1983 higher due to the acquisition of Citgo. Of the 1984 total, 61.5% was spent for property, plant and equipment for the convenience retailing segment, primarily for building 7-Eleven stores, acquiring store sites and remodeling and re-equipping existing facilities. Exacting store site selection criteria, including demographic and financial rate of return requirements, continue to increase the quality and profit potential of new units. Other major capital expenditures were the initial construction costs of a new distribution center in San Bernardino, California, and the addition of Chief Auto Parts stores.

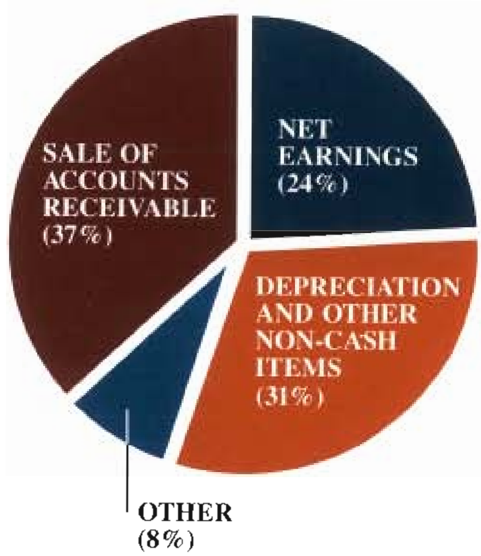
The Company also acquired most of the remaining land needed for Cityplace and began construction of the first phase. In addition, the hydrocracker unit was completed at Citgo's Lake Charles, Louisiana, refinery.

Southland expects 1985 capital expenditures for 7-Eleven and the other traditional businesses to increase moderately, while Citgo has no major projects planned. Should market and economic conditions make external funding prohibitively expensive or unavailable, the Company can quickly curtail capital spending because of the large number of small individual projects with staggered construction schedules throughout the year. Required capital expenditures for maintenance and modernization of existing facilities, as well as a reduced level of expansion, could then be funded from internally generated cash flow.

Another major use of funds in 1984 was the reduction of debt, primarily at Citgo. Additionally, Southland repurchased, at substantial discounts to face value, $31 million of its outstanding debentures that will be used to satisfy future sinking fund requirements.

Dividend payments in 1984 were $43.2 million, or an annual rate of $0.92 per share. In January 1985, the Board of Directors increased the annual dividend rate to $1.00 per share, resulting in a dividend payout that represents a return to the Board's guideline of 25% to 30% of prior-year earnings.

SOURCES OF FUNDS — 1984

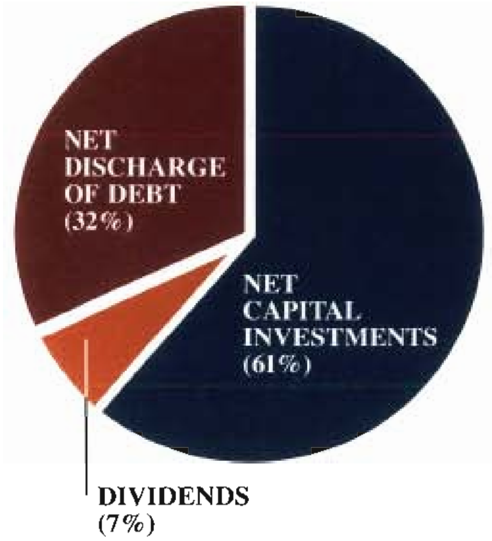


Financing Activities

Southland's financial strength and flexibility enabled it to maintain normal expansion of 7-Eleven and its other traditional businesses even after completing the acquisition of Citgo, which increased Southland's asset base by almost 80% in 1983. During 1984, the Company further improved its financing structure and foresees no obstacles to funding its continued growth.

Commercial paper is an important source of funding for Southland, emphasizing a flexible approach to cash planning and financing, in part due to the seasonal nature of the Company's businesses. In addition to its flexibility, commercial paper has been available to the Company at a lower cost than long-term debt. Quick access to commercial paper markets and sophisticated forecasting, cash concentration and cash disbursement systems have enabled Southland to maintain idle cash balances at low levels and minimize borrowing and interest costs. And since Southland's commercial paper is backed by a long-term credit facility, $150 million of it is classified as long-term debt.

USES OF FUNDS — 1984



With interest rates declining in recent months, the Company has fixed the rates on a portion of its floating-rate debt through currency and interest-rate swaps, which is a prudent approach to insure against any possible rise in short-term rates. At the same time, the potential exists for issuing debentures or other long-term debt to pay down some of the current floating-rate debt if rates become advantageous.

Both operating and capital leases continue to be important elements of the financing program, and additional transactions are planned for 1985.

Southland also expects to complete permanent financing for the first phase of Cityplace, the Company's real estate development near downtown Dallas which will include Southland's new headquarters building. Cityplace is pursuing a financing structure which will be nonrecourse to Southland and should not affect the Company's ability to generate funding for the other businesses.

It is anticipated that no common stock will be issued in the near term, although it remains a viable alternate source of funds for the Corporation.

Citgo Financing

During the year Southland replaced the debt under the $900 million bank facility used to acquire Citgo with a $650 million facility consisting of an agreement to sell up to $275 million of accounts receivable, which Southland will continue to service, and a $375 million revolving/term credit agreement with a group of 15 banks. Due to the effective management of inventories and accounts receivable, this amount is expected to be adequate for Citgo's needs.

Under the $275 million facility, the Company had sold $250 million of accounts receivable as of December 31. The purchaser has agreed to invest collected amounts in new purchases, providing a stable level of purchased accounts. The five-year commitment can be extended annually on a roll-over basis and provides funding at rates at least one-half of one percent below those of the old facility. The funds generated from the sale of receivables were used to reduce an equivalent amount of the Company's long-term debt, thereby causing a reduction to both total assets and capitalization.

In addition, Citgo borrowed $250 million in 1984 utilizing the initial revolving credit portion of the new $375 million bank facility. At the end of the three-year revolving credit period, any outstanding balance will be repaid under a five-year term loan agreement. This facility is secured only by Citgo's inventories and remaining accounts receivable. The new revolving credit arrangement provides a rate savings of about one-half percentage point, while also releasing Citgo's fixed assets and stock in pipeline companies which served as collateral under the initial agreement.

In another financing, $29 million in Industrial Development Revenue Bonds were issued on Citgo's behalf at low, tax-exempt floating rates which Citgo has the option of fixing for any time period up to their maturity dates. The average interest rate paid in 1984 was 6.44%.

Other Financings

During the past two years, debt funding for Southland's traditional operations has been obtained primarily in the commercial paper market. The Company has not issued long-term, fixed-rate debt since mid-1979 due to the high interest rates and Southland's ability to utilize the lower-cost, short-term facilities. As a result, the levels of commercial paper outstanding increased to $248 million at year-end. This amount is expected to rise during the first quarter of 1985 due to normal seasonal requirements.

As interest rates declined during the year, Southland fixed the rates on a portion of its floating rate debt by entering into exchange transactions. A recent development in the financial markets, these transactions enabled Southland to better balance its levels of fixed and floating rate debt. Southland entered into two such agreements for three to five years that totaled $150 million at rates lower than the Company would have paid if it had issued comparable long-term debt.

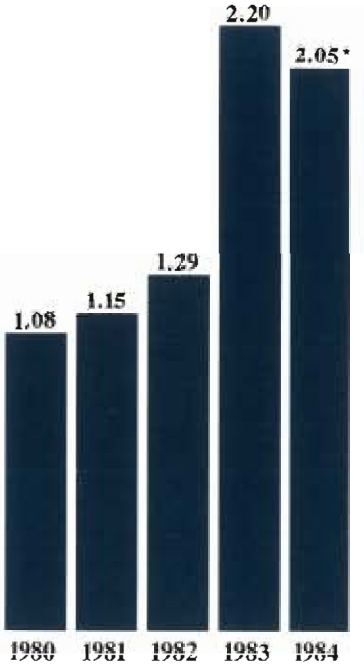
Two other transactions, totaling $75 million, were currency exchange agreements for seven and 10 years with payments denominated in Japanese yen. These exchanges, on which Southland pays a 7.7% fixed rate, will be repaid by royalties from the Company's Japanese licensee so that Southland has no income statement exposure from future yen/dollar exchange rate fluctuations.

Southland also entered into a sale/leaseback transaction of store properties in which the lease payments were denominated in yen. The transaction, thought to be the first of its kind involving a large number of properties, provides substantial savings over current dollar-denominated sale/leasebacks.

Other Sources of Credit

Credit facilities also have been arranged principally as backup for Southland's commercial paper, although they can be drawn upon if needed for other purposes.

TOTAL CAPITALIZATION
(Dollars in Billions)



*Decrease primarily due to sale of accounts receivable

One $200 million undrawn revolving line of credit is with 12 United States and Canadian banks.

A second revolving credit agreement for $200 million was signed in February 1985 with a consortium of nine major European and Japanese banks, in part to increase Southland's visibility in international financial markets. The Company has also arranged for $145 million in uncommitted bank lines which can be used on short notice and $30 million in master notes which are placed through bank trust departments at very attractive rates.

Credit Ratings

Southland's long-term debt is rated "BBB" by Standard and Poor's, "Baa1" by Moody's and "7" by Duff and Phelps. The Company's commercial paper is rated "A-2," "P-2" and "1-" by those agencies.

Management's Review of Operating Results

The operating results in 1984 include Citgo for the full 12 months, compared with four months in 1983.

Revenues

Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) continued to establish record highs by increasing 37.5% to $12.11 billion in 1984. A large portion of this increase resulted from the inclusion of $3.88 billion in outside sales from operations acquired with Citgo, compared with $1.19 billion in 1983.

Revenues (millions)	**1984**	**% Gain**	1983	% Gain	1982	% Gain
Net sales:						
Convenience retailing	**$ 7,707.3**	**13.0**	$6,820.7	17.3	$5,816.3	12.1
Gasoline refining and supply	**3,882.0**	**149.7**	1,554.7	186.5	542.6	539.9
Food processing and manufacturing	**443.6**	**12.1**	395.8	(.3)	397.0	(5.7)
Corporate	**2.0**	**114.7**	.9	(10.0)	1.0	25.0
Total sales	**12,034.9**	**37.2**	8,772.1	29.8	6,756.9	18.7
Other income	**70.1**	**112.9**	32.9	29.4	25.5	(37.0)
TOTAL	**$12,105.0**	**37.5**	$8,805.0	29.8	$6,782.4	18.3

The convenience retailing segment accounted for 64%, 78% and 86% of total sales in 1984, 1983 and 1982. 7-Eleven volume in 1984, representing 53% of total sales, increased 8.1% to $6.42 billion, following gains of 12.1% to $5.94 billion in 1983 and 12.1% to $5.30 billion in 1982.

7-Eleven merchandise sales (which do not include amusement game revenues) were up 9.7% to $4.80 billion after increases of 12.5% and 11.9% in 1983 and 1982. These gains resulted from inflation, real growth of 3.7%, 3.4% and 4.4% in stores open more than one year, and the net addition of 174, 134 and 163 stores in 1984, 1983 and 1982. More efficient use of selling space, increased advertising, new products and services, and traffic-building competitive pricing of selected items, especially milk, case beer, carton cigarettes and soft drinks, contributed to the gains. Sales increases in 1984 reflected a slowing of the inflation rate in 7-Eleven's merchandise mix to 3.6%, down from 5.1% in 1983 and 5.4% in 1982.

Self-serve gasoline, the largest single product category in the 7-Eleven sales mix, was 24.8% of 7-Eleven sales in 1984, compared to 25.5% in 1983 and 25.3% in 1982.

7-Eleven Gasoline	**1984**	**% Gain**	1983	% Gain	1982	% Gain
Sales (millions)	**$1,594.4**	**5.1**	$1,516.6	13.1	$1,341.5	12.2
Gallons (millions)	**1,454.4**	**6.8**	1,361.2	17.7	1,156.1	20.9
Gross profit (millions)	**$ 102.2**	**27.0**	$ 80.5	11.7	$ 72.1	(1.3)
Gross profit per gallon	**7.0¢**	**18.6**	5.9¢	(4.8)	6.2¢	(18.4)
Number of stores	**3,173**	**5.5**	3,007	6.4	2,827	12.3

Gasoline sales increased in 1984, 1983 and 1982, despite lower retail prices, because total volume was up due to higher average gallonage per store and a larger number of stores selling gasoline. The rate of growth in gasoline gallonage was lower in 1984 primarily because the national demand for gasoline remained relatively flat. However, improved market conditions and the ability to maximize profits through marketing techniques resulted in a substantial increase in total gasoline gross profit.

In addition to the 7-Eleven stores with self-serve gasoline, the Company operates self-serve, high-volume retail gasoline units which also offer selected convenience items. At year-end, these included 41 Super-7 and 291 Quik Mart locations. Together, these units added 497 and 212 million gallons to total retail volume in 1984 and 1983. In 1982, the Super-7 locations added 59 million gallons to total retail volume.

Sales to outside customers for the gasoline refining and supply segment accounted for 32% of the Company's total sales in 1984, compared to 18% in 1983 and 8% in 1982. The increases in 1984 and in 1983 were due primarily to the acquisition of Citgo.

Other income (equity earnings of pipeline companies and of affiliates, interest income, area license royalties, net gains on sale of assets no longer used by the Company, and gain on redemption of debentures) is

included in total revenues. Other income rose $37.2 million or 112.9% in 1984 due to increases in several categories. These increases include a $6.0 million gain as a result of the Company's repurchase of a portion of its debentures to meet future sinking fund requirements. Other significant increases occurred as a result of the inclusion of a full year's equity in earnings of Citgo's pipeline companies, as well as higher interest income and net gains on sales of assets. In 1983, other income rose 29.4% due to Citgo's equity earnings of pipeline companies which more than offset a decline in interest income. In 1982, other income decreased 37.2% because of reduced interest income caused by the deployment of investable cash into fixed assets.

Gross Profits and Margins

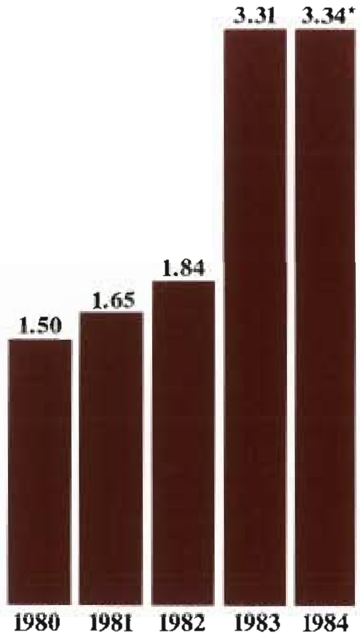
Gross profits (sales less cost of goods sold) were up 14.2%, 13.4% and 13.5% compared with sales gains of 37.2%, 29.8% and 18.7% in 1984, 1983 and 1982. For the same periods, gross margins (gross profits divided by sales) were:

Gross Margins (percentage)

QUARTERS	**1984**	1983	1982
First	**14.15**	18.66	19.34
Second	**16.45**	20.84	21.46
Third	**16.17**	19.45	21.84
Fourth	**13.73**	14.84	20.41
YEAR	**15.13**	18.18	20.82

In 1984, Southland's gross margins declined primarily due to the addition of a full year of Citgo's low-margin, high-volume business and decreases in amusement game revenues. Gross margins for 1983 were lower because of the addition of Citgo and decreases in retail and wholesale gasoline margins and amusement game revenues. Gross margins declined in 1982 due to the decrease in retail gasoline margins and the addition of low-margin wholesale gasoline sales resulting from the formation of the Gasoline Supply Division in December 1981.

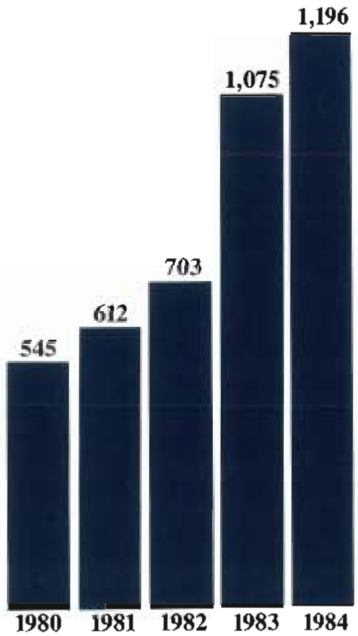
TOTAL ASSETS
(Dollars in Billions)



*Reflects sale of accounts receivable

Overall, the gross margin for 7-Eleven improved during 1984 despite decreases in amusement game revenues. The improvement resulted from stronger retail gasoline gross margins and higher merchandise gross margins caused by increased sales of high-margin products such as fountain soft drinks, non-foods, candy and snack items. In 1983, gross margins for 7-Eleven merchandise improved slightly due to increased sales of high-margin products. However, slightly lower gross margins for gasoline and a decline in amusement game revenues caused a decline in the total 7-Eleven gross margin. In 1982, the total 7-Eleven gross margin declined, despite increased amusement game revenues, due to competitive pricing of selected items and lower gasoline gross margins.

TOTAL SHAREHOLDERS' EQUITY (Dollars in Millions)



Selling, General and Administrative Expenses

In 1984, 1983 and 1982, selling, general and administrative expenses increased 16.8%, 14.9% and 11.9%. For the same periods, the ratios of these expenses to sales were:

Selling, General and Administrative Expenses (percentage)			
QUARTERS	**1984**	1983	1982
First	**12.92**	17.38	17.78
Second	**13.58**	17.17	17.24
Third	**13.60**	15.31	17.55
Fourth	**12.32**	12.93	17.02
YEAR	**13.10**	15.38	17.39

Increases in wholesale refined product sales, primarily from Citgo, caused selling, general and administrative expenses as a percent of sales to decline 2.28 percentage points to 13.10% in 1984 and 2.01 to 15.38% in 1983. The ratio of these expenses to sales declined 1.05 to 17.39% in 1982, due in part to the growth of retail and wholesale gasoline sales.

Interest and Imputed Interest Expense

Interest expense, which rose 95.0% in 1984 and 92.2% in 1983, primarily due to the addition of Citgo's debt, was up 11.6% in 1982. Imputed interest expense on capital lease obligations declined 3.2%, 3.3% and 7.4% in 1984, 1983 and 1982, reflecting lower utilization of capital leases.

Income Taxes

The effective federal and state tax rates of 7.0% in 1984 and 29.0% in 1983 were below the 46% federal statutory rate due primarily to tax benefits arising from Citgo and other tax credits. In 1982, the effective tax rate of 42.8% reflected reductions primarily resulting from investment tax credits.

Net Earnings

Net Earnings (thousands)						
QUARTERS	**1984**	**% Gain**	1983	% Gain	1982	% Gain
First	**$ 14,250**	**84.6**	$ 7,720	(18.9)	$ 9,515	28.4
Second	**58,460**	**72.2**	33,956	(3.4)	35,169	12.5
Third	**56,889**	**(5.3)**	60,074	63.1	36,833	16.6
Fourth	**30,653**	**2.1**	30,018	13.1	26,534	17.3
TOTAL	**$160,252**	**21.6**	$131,768	21.9	$108,051	16.4

Net earnings were higher in 1984 and 1983 due to the tax benefits arising from Citgo. Consolidated operating profits declined in 1984 due to losses sustained by Citgo, as well as higher interest and administrative expenses which were partially offset by operating profit increases occurring in 7-Eleven and Southland's other operations. Consolidated operating profits were up in 1983 due to a positive contribution by Citgo as well as an increase from Southland's other operations. Gains in operating profits were offset by higher interest and administrative expenses. In 1982, earnings increased due to gains from the new Gasoline Supply Division and increases in operating profits from Southland's other operations. Earnings gains for 1982 were partially offset by lower interest income resulting from reductions in levels of cash invested, as well as lower average yields.

Effects of Inflation

Refer to pages 47-49, Supplementary Inflation Data (Unaudited).

Consolidated Balance Sheets

The Southland Corporation and Subsidiaries

ASSETS	December 31 (Dollars in thousands) 1984	1983
Current assets:		
Cash and short-term investments	$ 79,782	$ 22,120
Accounts and notes receivable	168,067	476,393
Refundable income taxes	27,081	—
Inventories	992,469	954,916
Deposits and prepaid expenses	56,585	55,257
Investment in properties	69,400	76,200
Total current assets	1,393,384	1,584,886
Property, plant and equipment	1,815,974	1,589,924
Investments in affiliates	81,327	84,280
Other assets	49,087	50,365
	$3,339,772	$3,309,455

LIABILITIES AND SHAREHOLDERS' EQUITY	1984	1983
Current liabilities:		
Commercial paper and notes payable to banks	$ 122,240	$ 26,438
Accounts payable and accrued expenses	972,676	908,802
Income taxes	14,079	8,913
Long-term debt due within one year	28,268	57,878
Total current liabilities	1,137,263	1,002,031
Deferred credits and other liabilities	150,176	106,819
Long-term debt	856,646	1,125,643
Commitments		
Shareholders' equity:		
Preferred stock without par value, 5,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value, 150,000,000 shares authorized, 47,089,724 and 46,852,348 shares issued and outstanding	471	469
Additional capital	630,517	624,483
Retained earnings	564,699	450,010
Total shareholders' equity	1,195,687	1,074,962
	$3,339,772	$3,309,455

See notes to consolidated financial statements.

Consolidated Statements of Earnings

The Southland Corporation and Subsidiaries

	Year ended December 31		
	(Dollars in thousands, except per-share data)		
	1984	1983	1982
Revenues:			
Net sales	$12,034,871	$8,772,067	$6,756,933
Other income	70,130	32,943	25,450
	12,105,001	8,805,010	6,782,383
Cost of sales and expenses:			
Cost of goods sold	10,214,100	7,177,147	5,350,453
Selling, general and administrative expenses	1,576,856	1,349,574	1,174,886
Interest expense	102,614	52,636	27,390
Imputed interest expense on capital lease obligations	19,987	20,638	21,345
Contributions to Employees' Savings and Profit Sharing Plan	19,130	19,426	19,568
	11,932,687	8,619,421	6,593,642
Earnings before income taxes	172,314	185,589	188,741
Income taxes	12,062	53,821	80,690
Net earnings	$ 160,252	$ 131,768	$ 108,051
Earnings per share:			
Primary	$ 3.41	$ 3.26	$ 3.02
Fully diluted	$ 3.38	$ 3.21	$ 2.94

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

The Southland Corporation and Subsidiaries

	1984	1983	1982
		Year ended December 31 (Dollars in thousands)	
Internally generated funds:			
Net earnings	$160,252	$ 131,768	$ 108,051
Expenses not requiring the use of cash or short-term investments:			
Depreciation and amortization	165,749	145,105	121,701
Deferred income taxes	30,741	15,722	(1,459)
Other	10,868	—	—
Equity in earnings of affiliates in excess of dividends received	—	(471)	(603)
	367,610	292,124	227,690
Increase in accounts payable and accrued expenses	63,874	459,959	4,173
Increase in deposits and prepaid expenses	(7,774)	(9,909)	(1,033)
Increase in inventories	(37,553)	(179,498)	(77,043)
(Increase) decrease in accounts and notes receivable	58,326	(287,441)	(9,523)
Increase (decrease) in income taxes	(21,915)	(34,577)	22,396
Increase in deferred credits and other liabilities	8,195	10,725	2,931
Increase in net current assets from acquisition of Citgo	—	(477,339)	—
Funds provided from (used in) operations	430,763	(225,956)	169,591
Funds used to pay dividends	(43,215)	(35,329)	(27,657)
Net change in accumulated foreign currency translation adjustment	(2,179)	(1,206)	(1,633)
Net internally generated funds available (used) for investment	385,369	(262,491)	140,301
Capital investment activities:			
Acquisitions:			
Property, plant and equipment	(422,328)	(336,153)	(325,367)
Net noncurrent assets from acquisition of Citgo	—	(297,416)	—
Net noncurrent assets of other businesses acquired	(9,598)	(8,053)	(15,782)
Investment in properties	6,800	600	(7,200)
Investments in affiliates	2,953	(592)	1,402
Other	3,784	(8,933)	(1,802)
	(418,389)	(650,547)	(348,749)
Retirements of property, plant and equipment	39,476	38,166	23,544
Net funds used by capital investment activities	(378,913)	(612,381)	(325,205)
Financing activities:			
Financing acquired:			
Commercial paper and notes payable to banks	171,802	14,742	85,696
Long-term debt	290,402	264,751	27,550
Long-term debt from acquisition of Citgo	—	521,000	—
Sale of accounts receivable	250,000	—	—
Common stock	5,867	276,381	12,366
	718,071	1,076,874	125,612
Discharge of long-term debt	(666,865)	(214,567)	(47,793)
Net funds provided by financing activities	51,206	862,307	77,819
Increase (decrease) in cash and short-term investments	$ 57,662	$ (12,565)	$(107,085)

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

The Southland Corporation and Subsidiaries

	1984	1983	1982
		Year ended December 31 (Dollars in thousands)	
Common stock:			
Balance, beginning of year	$ 469	$ 361	$ 237
Acquisition of businesses	—	100	—
Conversion of debt	1	3	3
Stock options, incentives and other	1	1	1
Three-for-two stock split	—	4	120
Balance, end of year	471	469	361
Additional capital:			
Balance, beginning of year	624,483	347,786	335,294
Acquisition of businesses	—	267,036	—
Conversion of debt	3,122	7,636	10,856
Stock options, incentives and other	2,912	2,029	1,756
Three-for-two stock split	—	(4)	(120)
Balance, end of year	630,517	624,483	347,786
Retained earnings:			
Balance, beginning of year	450,010	355,201	276,690
Net earnings	160,252	131,768	108,051
Cash dividends	(43,215)	(35,329)	(27,657)
Stock options	(169)	(424)	(250)
Foreign currency translation adjustment	(2,179)	(1,206)	(1,633)
Balance, end of year	564,699	450,010	355,201
Total shareholders' equity	$1,195,687	$1,074,962	$703,348

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 1984

The Southland Corporation and Subsidiaries

1. Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of domestic and Canadian subsidiaries. Intercompany transactions are eliminated. On August 31, 1983, the Company acquired Citgo Petroleum Corporation (Citgo). The acquisition was accounted for by the purchase method and, accordingly, operations of Citgo are included in the consolidated financial statements from the date of acquisition.

Investments in affiliates are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition. Investments in affiliates consist primarily of amounts invested in a wholly owned United Kingdom subsidiary engaged in the operation of retail stores and of Citgo's 6.8% to 50% equity interests in pipeline companies. Equity in earnings of affiliates is included in other income and is recorded net of amortization of the intangibles which arose on the acquisition (straight-line over 40 years), and, as to foreign affiliates, net of foreign income taxes and a provision for United States federal income taxes. At December 31, 1984, the Company's equity in undistributed earnings of affiliates since date of investment was $6,919,000, and its investments in affiliates exceeded its equity in the fair value of the underlying net assets at date of acquisition by $16,832,000.

Financial information provided by the pipeline companies is summarized as follows:

(000s omitted)	December 31 1984	1983
Summary of financial position:		
Current assets	$ 112,075	$ 111,216
Noncurrent assets	1,229,686	1,307,414
	$1,341,761	$1,418,630
Current liabilities	$ 210,016	$ 242,819
Noncurrent liabilities	1,032,475	1,057,606
Shareholders' equity	99,270	118,205
	$1,341,761	$1,418,630
Company investment in pipeline companies	$ 50,512	$ 51,403

(000s omitted)	Year ended December 31, 1984	Four months ended December 31, 1983
Summary of operating results:		
Revenues	$681,501	$231,154
Gross profit	401,604	135,823
Net earnings	170,536	60,611
Company equity in net earnings	21,533	7,446
Dividends received	22,651	7,676

Revenues

Net sales are comprised of sales of products and merchandise, including sales by stores operated by franchisees of $2,042,549,000, $1,769,970,000 and $1,531,617,000 for the years ended December 31, 1984, 1983 and 1982. There is no significant difference in the profitability of Company-operated and franchisee-operated stores.

Sales by stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Citgo engages in crude oil trading to facilitate the receipt of crude oil at its refinery. Only the net result of such trading is recorded in the accounts.

Other income is primarily comprised of equity in earnings of affiliates, interest on cash investments and area license royalties.

Cost of Goods Sold

Cost of goods sold includes, for the convenience retailing segment, buying and occupancy expenses.

During 1984, Citgo purchased, at average posted prices, approximately $716 million in crude oil and other products for use at its refinery from Occidental Petroleum Corporation, a shareholder of the Company.

Inventories

Inventories are stated at the lower of cost or market, which, as to merchandise in stores, is determined by the retail inventory method. Cost is determined using the last-in, first-out (LIFO) method for substantially all inventories (including gasoline) of the convenience retailing segment and for refined products of the gasoline refining and supply segment, and the first-in, first-out (FIFO) method for all other inventories.

The cost of refined products inventory and other manufactured or processed finished goods inventory includes the costs of purchased materials, direct labor and manufacturing overhead.

Investment in Properties

Investment in properties includes land, buildings and equipment either to be sold for cash and leased back or to be mortgaged, as well as closed stores held for sale. The Company expects that cash will be realized for these properties within a twelve-month period. Working capital is used in the acquisition, construction and carrying of these assets.

Depreciation and Amortization

Depreciation of plant and equipment and amortization of capital leases are based upon the estimated useful lives of these assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is shorter.

Excise Taxes

Excise taxes of $373,580,000, $259,947,000 and $144,815,000 collected from customers on retail gasoline sales are included in net sales and cost of goods sold for the years ended December 31, 1984, 1983 and 1982.

Income Taxes and Investment Tax Credits

Income taxes are the estimated amount of federal and state income taxes on earnings reported in the consolidated statements of earnings. Deferred taxes and deferred tax benefits are provided for and are a result of timing differences between financial and tax reporting.

Investment tax credits are recorded as a reduction of income taxes in the year the related assets are placed in service.

Leases

Capital leases are recorded at the lower of the discounted present value of future lease payments or the fair value of the property. Provision is made for the present value of anticipated rentals on closed stores, net of expected sublease rentals.

2. Cash and Short-Term Investments:

Cash and short-term investments include temporary cash investments of $72,943,000 and $76,709,000 at December 31, 1984 and 1983, stated at cost, which approximates market.

3. Accounts and Notes Receivable:

(000s omitted)	December 31 1984	1983
Trade accounts and notes receivable	**$145,093**	$444,801
Franchisee accounts receivable	**34,936**	42,014
	180,029	486,815
Allowance for doubtful accounts	**(11,962)**	(10,422)
	$168,067	$476,393

On December 28, 1984, the Company sold $250 million of trade accounts receivable. The purchaser will reinvest the proceeds from the collected receivables in new receivables for a period of five years. The Company is contingently liable for the collection of $25 million of these receivables; however, management believes that the allowance for doubtful accounts will be adequate, and no additional liabilities will accrue.

4. Inventories:

(000s omitted)	December 31 1984	1983
Retail and finished goods	**$320,760**	$316,880
Refined product (excluding product at stores)	**461,864**	445,111
Crude oil	**166,332**	151,972
Other	**43,513**	40,953
	$992,469	$954,916

At December 31, 1984 and 1983, inventories stated on the LIFO basis (for financial statement purposes) were approximately $673,657,000 and $657,862,000, which is less than replacement cost by approximately $59,959,000 and $83,080,000.

As a result of the carryover of historical tax basis for Citgo refined product inventories acquired at August 31, 1983, the book LIFO basis of these inventories exceeds the tax LIFO basis by $229 million. The Company expects the levels of refined product inventories required for normal operations always to exceed the amounts acquired on August 31, 1983, and included in the book LIFO basis.

5. Property, Plant and Equipment:

(000s omitted)	December 31 1984	1983
Cost:		
Land	**$ 226,669**	$ 206,861
Buildings and leaseholds	**955,905**	876,021
Machinery and equipment	**1,004,875**	850,884
Vehicles	**126,594**	101,113
Construction in process	**96,374**	121,956
Property held for Cityplace development	**177,089**	110,851
	2,587,506	2,267,686
Accumulated depreciation and amortization	**(771,532)**	(677,762)
	$1,815,974	$1,589,924

Interest incurred to finance the construction or development of properties, which has been added to the cost of the related assets, was $7,776,000 in 1984, $5,557,000 in 1983 and $3,075,000 in 1982.

The Company has commenced construction of a new corporate office tower and smaller rental buildings which will comprise its headquarters complex within Cityplace, a commercial real estate development in Dallas, Texas. Construction costs for the headquarters complex and a duplicate tower and office complex are expected to approximate $600 million.

6. Accounts Payable and Accrued Expenses:

(000s omitted)	December 31 1984	1983
Trade accounts payable	**$642,240**	$637,676
Accrued payroll	**80,615**	75,375
Accrued taxes	**69,224**	49,298
Other	**180,597**	146,453
	$972,676	$908,802

7. Debt:

(000s omitted)	Amount outstanding	Due within one year	Balance included in long-term debt
	December 31, 1984		
Citgo revolving loan	$250,000	$ —	$250,000
Commercial paper and notes payable to banks	150,000	—	150,000
Real estate, equipment and other notes with a weighted average interest rate of 9.35% (mature 1985 to 2011)	124,538	13,642	110,896
Citgo industrial development revenue bonds	29,200	—	29,200
5% convertible subordinated debentures due 1987	8,302	—	8,302
8⅜% sinking fund debentures due 2002	24,351	—	24,351
9⅜% sinking fund debentures due 2003	42,303	—	42,303
9½% sinking fund debentures due 2004	66,461	—	66,461
Capital lease obligations	189,759	14,626	175,133
	$884,914	$ 28,268	$856,646

Property, plant and equipment with a carrying value of approximately $102 million at December 31, 1984, was mortgaged. Lenders to certain wholly owned real estate subsidiaries hold pledges of the shares of those subsidiaries as additional collateral.

The 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into the Company's common stock. The present conversion ratio is 45.19 shares for each $1,000 of principal. At December 31, 1984, there were 375,167 shares reserved for the conversion of these debentures.

Citgo has a revolving credit agreement with a syndicate of commercial banks providing for a line of credit of $375 million through December 31, 1992, with interest rate options based upon the certificate of deposit loan rate, the London interbank borrowing rate (both of which generally are less than the prime interest rate) or the prime rate, payable at least quarterly. The agreement provides for a commitment fee on unadvanced funds of ¼% per annum, payable quarterly. No compensating balances are required. The agreement provides for 20 equal quarterly payments of principal, beginning March 31, 1988. At December 31, 1984, $250 million is outstanding under this agreement. Borrowings under this agreement are collateralized by Citgo's inventories and accounts receivable, which aggregate $710,735,000 at December 31, 1984.

The Company has a revolving credit agreement with a syndicate of commercial banks providing for a line of credit of $200 million through December 1, 1986, with interest rate options based upon the certificate of deposit loan rate, Eurodollar loan rate (both of which generally are less than the prime interest rate) or the prime rate. The agreement provides for a commitment fee on unadvanced funds of ¼% per annum. No compensating balances are required. The agreement provides for 16 equal quarterly payments of principal plus accrued interest, beginning December 31, 1986. In addition, the Company has other unused lines of credit which, at December 31, 1984, totaled $90 million. No loans are outstanding under the above agreements at December 31, 1984.

Commercial paper and notes payable to banks of $150 million have been classified as long-term debt because the Company intends to maintain at least this amount of such debt for a minimum of one year or intends to refinance the debt on a long-term basis and has the availability of such refinancing because of the existence of the lines of credit. The Company intends such a refinancing when market conditions become advantageous. The average interest rate on commercial paper and notes payable to banks outstanding at December 31, 1984, is 9.01%, which is less than the interest rates available at that date under the revolving credit agreements.

As of December 31, 1984, long-term debt (which includes capital lease obligations) scheduled maturities are as follows:

(000s omitted)	
1985	$ 28,268
1986	31,334
1987	73,085
1988	115,135
1989	115,332
Thereafter	521,760
	$884,914

During 1984, the Company entered into currency exchange agreements with two multinational financial institutions that converted $75 million of commercial paper borrowings into Japanese yen equivalents bearing interest at 7.7% on a quarterly payment basis, payable in Japanese yen for seven to 10 years. The Company has hedged these Japanese yen borrowings by designating its future royalty receipts from its Japanese area licensee to service interest and principal yen payments, thus offsetting the impact of exchange rate fluctuations. Accordingly, no foreign currency exchange rate gain or loss is recognized on these yen borrowings. The Company also entered into interest rate exchange agreements which fixed the interest rate on $150 million of floating rate debt at 11.7% on a semi-annual payment basis for three years.

The Citgo industrial development revenue bonds bear floating market interest rates (6⅝% at December 31, 1984). Bonds aggregating $17,400,000 are due in 2004, with the remainder due in 2007.

8. Stock Options, Key Employees Incentive Plan and Preferred Stock:

Stock Options

The Employees Stock Option Plan (the Plan), adopted in 1977 and amended in 1983, provides for the granting of options to key employees and officers of the Company. The options are generally granted at the fair market value of the shares on the date of grant.

Options granted under Part A of the Plan expire ten years from date of grant and are exercisable ratably over that period on a cumulative basis. Options granted under Part B of the Plan expire at least two years, and not more than ten years, from date of grant and are exercisable ratably over the period specified in the option on a cumulative basis.

Options granted under Part C of the Plan qualify as incentive stock options under Section 422A of the Internal Revenue Code. These options will expire at least two years, and not more than ten years, from date of grant and are exercisable ratably in the sequence granted over the period specified in the option.

Options granted under Parts A and B of the Plan may include the right of the optionholder to receive, upon exercise of an option, a cash payment equal to the difference between the purchase price and the market price on the date of exercise. All applicable options granted under the Plan, through December 31, 1984, include such a right.

At December 31, 1984, there were options for 1,377,912 shares outstanding at $12.73 to $36.63 per share, of which 275,837 were exercisable. During the year ended December 31, 1984, options for 43,995 shares were exercised at $12.73 to $18.25 per share. At December 31, 1984, 4,278,002 shares were authorized for future issuance under this Plan.

Key Employees Incentive Plan
At December 31, 1984, 178,492 shares were authorized for issuance pursuant to a key employees incentive plan, of which 49,556 shares will be issued in 1985. In 1983 and 1982, 28,344 and 73,390 shares were issued under the plan. No shares were issued in 1984.

Preferred Stock
No preferred stock has been issued. If issued, the preferred stock will have such rights, powers and preferences as shall be fixed by the Company's Board of Directors.

9. Employee Benefit Plans:

Employees' Savings and Profit Sharing Plan
Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (Profit Sharing) for the purpose of providing retirement benefits for eligible employees.

Contributions to Profit Sharing are made by both the participants and the Company. The Company contributes approximately 10% of its net earnings before contribution to Profit Sharing, contribution to the ESOP and federal income taxes. The Company contribution is allocated to the participants on the basis of their contribution, years of participation in Profit Sharing and age.

Employee Stock Ownership Plan
Effective January 1, 1983, the Company adopted the Southland Employee Stock Ownership Plan (the ESOP) for eligible employees. Contributions to the ESOP, which totaled $3,013,000 and $2,182,000 for 1984 and 1983, can be made by the Company in either cash or shares of common stock and are limited to 0.5% of the aggregate compensation of the participants. The Company contribution is allocated to the participants on an equal basis and results in a federal tax credit of equal amount.

Citgo Benefit Plans
Citgo has a thrift plan and a pension plan for its hourly employees. Contributions to the thrift plan are subject to sufficient accumulated taxable earnings and profits and are based on employee contributions and years of service. Citgo makes annual contributions to the pension plan to fund costs in the year accrued.

A comparison of accumulated benefits and net assets for the pension plan follows:

(000s omitted)	January 1 1984	September 1 1983
Actuarial present value of accumulated benefits:		
Vested	**$21,240**	$18,107
Nonvested	**2,191**	2,615
	$23,431	$20,722
Net assets available for benefits	**$34,900**	$32,500

The weighted average assumed rate of return used in determining the actuarial present value of accumulated benefits was 9%.

Citgo expensed $10,886,000 and $4,632,000 for its pension and thrift plans for the year ended December 31, 1984, and the four months ended December 31, 1983, which includes the amortization of pension plan prior service costs over 20 years.

Post-Retirement Insurance Benefits
The Company provides certain health care and life insurance benefits for both active and retired employees through a trust which is funded by Company and employee/retiree payments. Substantially all employees may become eligible for these benefits if they reach normal retirement age or qualify for the Company's early retirement plan. The cost to the Company of retiree health care and life insurance benefits is recognized as expense as claims are incurred and was $1,341,000 in 1984.

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10. Leases:

Certain of the property, plant and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years. The leases do not contain restrictions which have a material effect on the Company's operations.

The composition of capital leases reflected as property, plant and equipment in the consolidated balance sheets is as follows:

(000s omitted)	December 31 1984	1983
Buildings	**$252,218**	$266,798
Equipment	**61,417**	66,492
	313,635	333,290
Accumulated amortization	**(174,589)**	(180,858)
	$139,046	$152,432

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(000s omitted)	Capital leases	Operating leases
1985	$ 33,782	$ 105,577
1986	31,196	101,615
1987	29,066	95,982
1988	27,996	89,809
1989	27,047	76,487
1990 and thereafter	213,216	664,975
Future minimum lease payments	362,303	$1,134,445
Estimated executory costs	(6,537)	
Amount representing imputed interest	(166,007)	
Present value of future minimum lease payments	$189,759	

Rent expense on operating leases in the years ended December 31, 1984, 1983 and 1982, totaled $103,808,000, $80,891,000 and $69,020,000.

Leases With Profit Sharing
During 1984, 1983 and 1982, Profit Sharing purchased 31, 129 and 130 7-Eleven or Chief Auto Parts stores from the Company for $13,307,000, $41,372,000 and $40,660,000, which include the Company's direct and indirect costs. The stores were simultaneously leased to the Company at annual rentals approximating market rates. At December 31, 1984, Profit Sharing owned 902 stores leased to the Company under capital leases (net unamortized amount of $42,351,000) and 588 stores leased to the Company under operating leases.

11. Income Taxes:

Provisions for income taxes for the years ended December 31 are as follows:

(000s omitted)	1984	1983	1982
Currently payable (refundable):			
Federal	**$(25,169)**	$27,175	$70,496
Canadian	**3,464**	2,700	3,220
State	**3,026**	8,224	8,433
	(18,679)	38,099	82,149
Deferred	**30,741**	15,722	(1,459)
	$ 12,062	$53,821	$80,690

Reconciliations of the Company's effective tax rate and the federal statutory rate for the years ended December 31 are as follows:

	1984	1983	1982
Federal statutory rate	**46.0%**	46.0%	46.0%
Investment tax credits	**(14.7)**	(11.9)	(4.7)
State income taxes net of federal income tax benefit	**.9**	2.4	2.4
Depreciation	**(20.1)**	(4.5)	—
Dividends received deduction	**(4.4)**	(1.5)	—
Other	**(.7)**	(1.5)	(.9)
	7.0%	29.0%	42.8%

The provisions for deferred income taxes for the years ended December 31 are as follows:

(000s omitted)	1984	1983	1982
Use of accelerated depreciation for tax purposes	**$37,465**	$ 9,849	$ 4,688
Insurance accruals not deductible for tax purposes	**(6,455)**	3,695	(3,323)
Other	**(269)**	2,178	(2,824)
	$30,741	$15,722	$(1,459)

Deferred federal income taxes of $68,949,000 and $33,787,000 at December 31, 1984 and 1983, are included in deferred credits and other liabilities. Net deferred tax benefits of $9,990,000 and $5,569,000 at December 31, 1984 and 1983, are included in deposits and prepaid expenses.

12. Earnings Per Share:

Primary earnings per share are based on the average number of shares outstanding during each year. Earnings per share assuming full dilution are based on (a) shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible debentures at the stated conversion rates (related interest requirements eliminated), (c) shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds and (d) average shares issuable under the key employees incentive plan.

13. Segment Information:

Convenience retailing includes all convenience, grocery and auto parts stores, retail gasoline outlets and distribution centers (which derive the majority of their revenues and operating profits from support of these stores). Gasoline refining and supply includes the Citgo refinery, investments in pipeline companies (except equity in their earnings, which is shown separately) and a lubricants refinery, and related wholesale, marketing and transportation facilities, as well as the Gasoline Supply Division which constituted the entirety of the segment through August 31, 1983, the date of the acquisition of Citgo. Food processing and manufacturing includes milk, ice cream and other food processing and distribution operations, and the ice, chemical and Tidel Systems divisions. Interest expense is not allocated to segments. Corporate items reflect revenues, expenses and assets not allocable to segments.

Intersegment sales are accounted for on a cost-plus-markup basis. Expenses directly identifiable with a segment and certain allocated income and expenses are used to determine operating profit by segment.

The segment information for 1983 and 1982 has been reclassified to reflect certain changes in segment reporting that were made in 1984. The changes primarily consist of the combination of dairies and special operations into the new food processing and manufacturing segment; the inclusion of area license royalties with convenience retailing, whereas previously they were included in corporate revenues; and the transfer of auto parts stores from special operations to the convenience retailing segment.

Segment information is as follows:

(000s omitted)	1984	1983	1982
Revenues:			
Convenience retailing	$ 7,750,652	$ 6,841,472	$ 5,838,180
Gasoline refining and supply	5,427,092	2,764,257	1,259,493
Food processing and manufacturing	789,389	705,671	672,533
Corporate	2,322	1,055	1,045
	13,969,455	10,312,455	7,771,251
Intersegment:			
Gasoline refining and supply	(1,520,542)	(1,198,729)	(713,238)
Food processing and manufacturing	(343,912)	(308,716)	(275,630)
Consolidated revenues	$12,105,001	$ 8,805,010	$ 6,782,383
Operating profits:			
Convenience retailing	$ 268,806	$ 238,224	$ 222,549
Gasoline refining and supply	15,498	22,719	22,947
Food processing and manufacturing	29,249	24,658	17,786
Consolidated operating profits	313,553	285,601	263,282
Equity in earnings of pipeline companies	21,533	7,446	—
Interest expense	(122,601)	(73,274)	(48,735)
Corporate expense — net	(40,171)	(34,184)	(25,806)
Consolidated earnings before income taxes	$ 172,314	$ 185,589	$ 188,741
Identifiable assets at December 31:			
Convenience retailing	$ 1,594,890	$ 1,489,943	$ 1,349,953
Gasoline refining and supply	1,245,865	1,392,278	139,691
Food processing and manufacturing	181,190	172,814	159,389
Corporate	317,827	254,420	193,221
Total identifiable assets	$ 3,339,772	$ 3,309,455	$ 1,842,254
Capital expenditures:			
Convenience retailing	$ 265,703	$ 208,045	$ 195,090
Gasoline refining and supply	47,221	317,350	15,681
Food processing and manufacturing	25,914	20,066	20,442
Corporate	93,088	96,161	109,936
Total capital expenditures	$ 431,926	$ 641,622	$ 341,149
Depreciation and amortization expense:			
Convenience retailing	$ 125,297	$ 117,112	$ 101,089
Gasoline refining and supply	16,646	7,282	3,571
Food processing and manufacturing	14,324	12,764	11,880
Corporate	9,482	7,947	5,161
Total depreciation and amortization expense	$ 165,749	$ 145,105	$ 121,701

14. Quarterly Financial Data (Unaudited):

Summarized quarterly financial data is as follows:

(000s omitted, except per-share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Net sales:					
1984	**$2,856,298**	**$2,982,153**	**$3,085,364**	**$3,111,056**	**$12,034,871**
1983	1,705,068	1,930,885	2,430,320	2,705,794	8,772,067
1982	1,532,306	1,725,926	1,790,825	1,707,876	6,756,933
Gross profit:					
1984	**404,141**	**490,418**	**499,016**	**427,196**	**1,820,771**
1983	318,095	402,489	472,709	401,627	1,594,920
1982	296,398	370,381	391,163	348,538	1,406,480
Earnings before income taxes:					
1984	**18,153**	**64,472**	**62,178**	**27,511**	**172,314**
1983	13,084	57,553	81,228	33,724	185,589
1982	16,990	61,741	64,912	45,098	188,741
Income taxes:					
1984	**3,903**	**6,012**	**5,289**	**(3,142)**	**12,062**
1983	5,364	23,597	21,154	3,706	53,821
1982	7,475	26,572	28,079	18,564	80,690
Net earnings:					
1984	**14,250**	**58,460**	**56,889**	**30,653**	**160,252**
1983	7,720	33,956	60,074	30,018	131,768
1982	9,515	35,169	36,833	26,534	108,051
Primary earnings per share:					
1984	**.30**	**1.25**	**1.21**	**.65**	**3.41**
1983	.21	.91	1.48	.64	3.26
1982	.27	.99	1.03	.73	3.02
Fully diluted earnings per share:					
1984	**.30**	**1.24**	**1.19**	**.65**	**3.38**
1983	.21	.89	1.46	.63	3.21
1982	.26	.96	1.00	.72	2.94

The results of operations include Citgo from August 31, 1983.

The effective tax rate for the fourth quarter of 1984 was (11.4)%, which adjusts income tax expense for the year 1984 to the actual annual effective tax rate of 7.0% from the previously estimated effective rate of 10.5%.

Management's Responsibility for Financial Reporting

The consolidated financial statements of The Southland Corporation and subsidiaries, as well as other financial information contained in this report, were prepared by management, which is responsible for their integrity and objectivity.

The Company's financial position and results of operations are presented in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. The Company has designed and implemented accounting and reporting systems and controls to provide reasonable assurance that transactions are accurately reflected in the books and records, assets are protected, established policies and procedures are followed, and the Company's financial position and results of operations are presented fairly. Accounting and reporting controls are monitored through an extensive program of internal audits by a professional staff of Company auditors which coordinates its activities with the Company's independent certified public accountants.

Touche Ross & Co. is engaged to examine the consolidated financial statements and issue its report thereon. Its examination is conducted in accordance with generally accepted auditing standards, including a review of internal controls and such tests of the accounting records as it considers necessary.

The Board of Directors, assisted by its Audit Committee of four non-employee directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and for recommending to shareholders the engagement of the independent certified public accountants, with whom the Committee reviews the scope of the audit and the accounting principles to be applied in financial reporting. The Committee meets as necessary, but at least three times a year. Touche Ross & Co. and the Company's internal auditors have direct access to the Committee–with or without the presence of management–to discuss any appropriate matter.

Clark J. Matthews II

Clark J. Matthews, II
Senior Executive Vice President
and Chief Financial Officer

Independent Auditors' Report

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The Southland Corporation and subsidiaries as of December 31, 1984 and 1983, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Dallas, Texas
February 22, 1985

Supplementary Inflation Data (Unaudited)

Introduction

Under generally accepted accounting principles, financial statements traditionally have been prepared on the basis of historical cost. Over time, inflation distorts this accounting measurement. The supplementary information below attempts to show the impact of inflation on the Company's financial statements.

Method of Measuring the Effects of Inflation

Current cost reporting provides information with respect to changes in specific prices (current costs) by adjusting historical cost to the cost which is currently required to purchase inventories and property, plant and equipment. Over time, current cost increases at a rate different from the Consumer Price Index for all Urban Consumers (CPI-U). Current cost of property, plant and equipment and related depreciation and amortization expense were determined by application of appropriate published and internally developed indexes. The last-in, first-out (LIFO) method is used to determine the cost of the majority of inventories. Because of the rapid turnover of inventories and the use of LIFO, the cost of goods sold as shown in the historical cost financial statements approximates current cost. Current cost of inventories was estimated using first-in, first-out valuations adjusted for price changes through the end of the year.

Management's Comments

The following schedules compare financial data reported on a historical cost basis with data adjusted for current costs.

Revenues (in millions of dollars) for 1984 were $12,105.0 and for 1980, expressed in average 1984 dollars, were $6,028.5, resulting in an average annual compound real sales growth rate from 1980 to 1984 of 16.9%.

Net earnings determined under the current cost method are lower than earnings determined under the historical cost method. This decline results principally from the higher depreciation and amortization expense arising from significant inflationary increases in the cost of property, plant and equipment. The impact of inflation on inventories is not significant to earnings since earnings are based primarily on LIFO, which approximates the results obtained under the current cost method.

Present tax laws do not allow deductions for depreciation adjusted for the effect of inflation. Therefore, the Company's tax rate based on data adjusted for the impact of inflation can be in excess of the statutory rate. As shown in the following statement of earnings, the effective tax rate rises from 7.0% based on historical cost to 12.2% based on the current cost method.

The reduction in net earnings, discussed above, is partially offset by the unrealized gain from the decline in purchasing power of net amounts owed (monetary liabilities in excess of monetary assets). Since the monetary liabilities at year-end were larger than the monetary assets, a gain is shown. This gain represents the change in the amount of purchasing power required at year-end to pay these net liabilities compared to the higher amount that would have been required to pay them at the end of the preceding year.

Supplementary Information — The Impact of General Inflation and Specific Price Changes on Selected Financial Data

(Dollars in millions)	Year ended December 31, 1984 As reported in financial statements	Adjusted for current costs
Revenues	$12,105.0	$12,105.0
Cost of sales and expenses:		
Cost of goods sold, exclusive of depreciation and amortization	10,089.2	10,092.8
Depreciation and amortization	165.7	235.1
Interest expense, including imputed interest expense on capital lease obligations	122.6	122.6
Other operating expenses	1,555.1	1,555.1
	11,932.6	12,005.6
Earnings before income taxes	172.4	99.4
Income taxes	12.1	12.1
Net earnings	$ 160.3	$ 87.3
Effective tax rate	7.0%	12.2%
Unrealized gain from decline in purchasing power of net amounts owed	—	$ 69.1
Increase in current cost of inventories and property, plant and equipment held during the year	—	$ 142.3
Effect of increase in general inflation	—	128.0
Excess of increase in current costs over increase in general inflation	—	$ 14.3

The current costs of inventories and property, plant and equipment, net of accumulated depreciation and amortization, at December 31, 1984, and corresponding historical cost amounts, were as follows:

(Dollars in millions)	Historical cost	Current cost
Inventories	$ 992.5	$ 1,050.7
Property, plant and equipment – net	1,816.0	2,492.1

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (In average 1984 dollars)

(Dollars in millions, except per-share data)	1984	1983	1982	1981	1980
				Year ended December 31	
Revenues	$12,105.0	$9,180.1	$7,298.5	$6,549.0	$6,028.5
Historical cost information adjusted for current costs:					
Net earnings	87.3	57.1	48.8	36.6	29.1
Primary earnings per share	1.86	1.41	1.36	1.03	.82
Net assets at year-end	1,892.4	1,815.3	1,397.3	1,391.1	1,345.6
Excess (decrement) of increase in current costs over increase in general inflation	14.3	73.0	(39.9)	(8.4)	(55.4)
Unrealized gain from decline in purchasing power of net amounts owed	69.1	36.5	32.3	68.8	102.4
Cash dividends per common share	.92	.91	.83	.80	.77
Market price per common share at year-end	27⅛	33⅜	27⅞	23⅝	16⅝
Average CPI-U	311.1	298.4	289.1	272.4	246.8

Board of Directors

John P. Thompson (1948)
Chairman of the Board and
Chief Executive Officer

Jere W. Thompson (1961)
President

William W. Atwell[1,2,3] (1976)
Investments

J. Y. Ballard (1937)
Investments

Frank L. Carney (1982)
Owner,
Carney Enterprises

Walton Grayson, III (1962)
Executive Vice President

Dr. Armand Hammer (1983)
Chairman and Chief Executive Officer,
Occidental Petroleum Corporation

Joseph S. Hardin (1977)
Retired Executive Vice President;
President and Director, Hargoro, Inc.

Mark L. Lemmon, M.D.[1,2] (1977)
Plastic and Reconstructive Surgeon

Leo E. Linbeck, Jr.[1,3] (1982)
Chairman and Chief Executive Officer,
Linbeck Construction Corporation

Clark J. Matthews, II (1981)
Senior Executive Vice President
and Chief Financial Officer

Walter M. Mischer, Jr.[3] (1982)
President,
The Mischer Corporation

Alan C. Schoellkopf[1,2] (1979)
Vice President,
Rotan Mosle Inc.

Joe C. (Jodie) Thompson, Jr. (1979)
Senior Executive Vice President

Clifford W. Wheeler (1960)
Retired Vice President
(Retired from Board of Directors May 9, 1984)

(Date indicates year elected)
[1]Members of the Audit Committee
[2]Members of the Nominating Committee
[3]Members of the Compensation and Benefits Committee

Senior Officers

John P. Thompson 59
Chairman of the Board and
Chief Executive Officer

Jere W. Thompson 52
President

Clark J. Matthews, II 48
Senior Executive Vice President
and Chief Financial Officer

Joe C. (Jodie) Thompson, Jr. 44
Senior Executive Vice President, Retail

Walton Grayson, III 56
Executive Vice President,
Administration and Services

James W. Parker 46
Executive Vice President,
Manufacturing and Distribution

S. R. Dole 47
Senior Vice President, Stores

Sam J. Susser 45
Senior Vice President,
Petroleum Products

Operating Officers

C. O. Beshears 58
Vice President, Dairies

Donald L. Burnside 49
Vice President, Western Stores Region

Adrian O. Evans 48
Vice President, Central Stores Region

Ronald E. Hall 52
Vice President, and President and
Chief Executive Officer,
Citgo Petroleum Corporation
(Effective February 1, 1985)

Joseph S. Hardin, Jr. 39
Vice President, Distribution

Frank L. Kitchen 48
Vice President, Eastern Stores Region

James R. Lynch 47
Vice President, Southeastern Stores Region

Hugh G. Robinson 52
Vice President, and President,
Cityplace Development Corporation

Richard A. Turchi 50
Vice President, International Operations

Bill M. Wootton 46
Vice President, Specialty Retail

Staff Officers

Rulon R. Brough 61
Vice President, EDP Facilities Planning

M. T. Cochran, Jr. 66
Vice President, Special Properties
(Retired December 31, 1984, after 27 years of service)

Frank J. Gangi 43
Vice President and Treasurer

Vaughn R. Heady 64
Vice President

David Karney 40
Vice President,
Management Information Services
(Effective January 23, 1985)

Allen Liles 47
Vice President, Public Relations

Frank E. McKeown 41
Vice President, Marketing–Retail

P. Eugene Pender 53
Vice President and Controller

L. Mark Rigg 51
Vice President, Human Resources

John H. Rodgers 40
Vice President and General Counsel

Kenneth M. Slauth 48
Vice President, Development
(Effective January 23, 1985)

Henry T. Stanley, Jr. 48
Vice President, Investor Relations

Forrest Stout 66
Vice President
(Retired May 9, 1984, after 36 years of service)

R G Smith 61
Secretary

Ben M. Holland 52
Vice President, Development
(Mr. Holland died November 23, 1984.
A Southland employee for 23 years, he was
an invaluable member of Southland's
management team and will be deeply missed
by his many friends and colleagues.)

Corporate Headquarters:
The Southland Corporation
P.O. Box 719, Dallas, Texas 75221
(214) 828-7011 (also see numbers below)

For Information Concerning:
Investor Relations (financial/investment data, business performance and general information about The Southland Corporation) – write the Investor Relations Department at the above address, or telephone (214) 828-7217.

Shareholder Services (shareholder account, dividend reinvestment or other shareholder services) – write the Corporate Secretary at the above address, or telephone (214) 828-7300.

Annual Meeting:
The Annual Meeting of the Company will be held at 10 a.m. Wednesday, May 8, 1985, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

Securities Listed:
New York Stock Exchange (SLC):
Common Stock
8⅜% Sinking Fund Debentures
9⅜% Sinking Fund Debentures
9½% Sinking Fund Debentures

Luxembourg Stock Exchange:
5% Convertible Subordinated Debentures

Transfer Agent and Registrar:
Common Stock
8⅜% Sinking Fund Debentures
9⅜% Sinking Fund Debentures
9½% Sinking Fund Debentures

MBank Dallas, N.A.
P.O. Box 225415
Dallas, TX 75265
Dallas: 698-5941
Texas: (800) 492-9734
Outside Texas: (800) 527-7844

Auditors:
Touche Ross & Co.
2001 Bryan Tower, Suite 2400
Dallas, TX 75201

Dividend Reinvestment Plan:
This plan provides a simple, convenient and inexpensive way for shareholders to invest cash dividends and additional cash deposits in Southland stock. For further information, please write the Corporate Secretary at the Corporate Headquarters address.

Form 10-K:
Shareholders may obtain a copy, exclusive of exhibits, of the Form 10-K Annual Report for the year ended December 31, 1984, as filed with the Securities and Exchange Commission, by writing to the Investor Relations Department at the Corporate Headquarters address.

Market Data:
Southland's common stock is traded under the symbol SLC on the New York, Pacific, Boston and Philadelphia Stock Exchanges. The following price/earnings ratios are based upon primary earnings per share for the four preceding quarters.

QUARTERS	Price Range		Price/Earnings Ratios	
1984	High	Low	High	Low
First	35¾	31	11.0	9.6
Second	36½	26⅝	11.0	8.0
Third	32⅞	23	9.0	6.3
Fourth	32¾	25	9.6	7.4
1983				
First	31⅝	25⅛	10.5	8.3
Second	48¼	29⅞	16.3	10.1
Third	46	38½	16.0	13.4
Fourth	44¾	29½	13.4	8.9
1982				
First	21	17	8.0	6.5
Second	22⅝	19⅜	8.5	7.3
Third	26⅜	20⅜	9.5	7.3
Fourth	31½	24⅝	10.8	8.4

The Southland Corporation

P.O. Box 719
Dallas, Texas 75221